VW and Skoda
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Which way next?
Russia's economy seeks stability
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Crystal clear
US mounts an LCD challenge
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FINANCIAL TIMES

Europe's Business Newspaper TUESDAY NOVEMBER 8 1994 D8523A

South Koreans begin easing curbs on ties with North

South Korean president Kim Young-sam announced a gradual easing of restrictions on economic ties with North Korea after the recent settlement of the dispute over Pyongyang's nuclear programme. Direct investments of less than $5m will be permitted, and machinery used in reprocessing commissions from South Korean companies, such as for textiles, can be shipped to North Korea. Page 18

UK orders ferry checks: The UK government is to increase checks on roll-on roll-off ferries after one in three of the vessels operating from British ports was found to have faulty bow doors. Page 18; *Ferry ban hits calf prices*, Page 9

Offshore oilfield given go-ahead: The UK government gave the go-ahead for Britain's first offshore oilfield in the deep Atlantic waters west of the Shetland Islands. Page 18

Dublin to free terrorists: Irish Republican Army prisoners held in Irish jails will be freed before Christmas as part of the Dublin government's response to the terrorist ceasefire, justice minister Maire Geoghegan-Quinn said last night.

Citibank of the US is entering retail banking in Britain for the first time and expects to open six branches there by the end of next year. Page 19

Gartmore, a leading UK fund manager, announced a joint venture with NationsBank, the third-largest US bank, which will Gartmore allow it to sell its expertise in the US. Page 19; Lex, Page 18

Russians remember Bolshevik revolution:

A hard-liner carries a poster of Lenin as thousands of Russians, disenchanted with market reforms that have plunged them into poverty, marched through central Moscow to celebrate the 77th anniversary of the 1917 Bolshevik revolution. The 15,000-strong demonstration quickly turned into the biggest protest against President Boris Yeltsin this year. Russia tries to end securities market chaos, Page 3; Twisting and turning, Page 16

Italian rainstorms claim 59 lives: The worst rainstorms to hit north-western Italy for 80 years have killed 59 people, and authorities fear the final death toll could be well over 100. Page 2

Swedish leaders plead EU cause: Swedish politicians moved to bolster faltering support for joining the European Union ahead of the country's referendum on Sunday. Page 2; Lex, Page 18

Warning on China's trade talks: Sir Leon Brittan, the European Commission's top trade official, warned that negotiations on China's re-entry to the General Agreement on Tariffs and Trade were in danger of "grinding to a halt". Page 5

Channel tunnel delay: A full passenger service for drivers and their cars in the Anglo-French Channel tunnel will not start before the end of November or early December, at least two weeks later than the most optimistic forecast. Page 8

US to pull out more troops: The US plans to withdraw nearly 14,000 of its troops from Kuwait and Haiti over the next six weeks. Page 4

Johnan Shinkin Bank, Japan's largest credit association, launched a deposit account that includes eligibility for a raffle with cash prizes of up to Y50,000 ($520). Page 6

IBM, Apple and Motorola confirmed details of an agreement to develop a common standard specification for personal computers. Page 19

Brussels balks at German venture: The European Commission is understood to have serious reservations about a planned joint venture by two big German media groups and the state telephone monopoly. Page 2

Polish coalition split: Differences over privatisation policies are threatening to undermine Poland's governing coalition. Page 3

Indonesian union chief jailed: The leader of Indonesia's largest independent trade union was sentenced to three years' in prison by a court in the northern Sumatran town of Medan, where workers' demonstrations led to riots in April. Page 6

Airports group boosts profits: A 7 per cent increase in airline passengers helped fuel a £28m ($46m) increase to £265m in pre-tax profits at UK airports group BAA, during the six months ended September. Page 19; Lex, Page 18

■ STOCK MARKET INDICES

FT-SE 100:	3,065.8	(-31.8)
Yield	4.15	
FT-SE Eurotrack 100	1,322.66	(-11.06)
FT-SE-A All-Share	1,525.19	(-0.8%)
Nikkei	19,619.22	(-192.34)
New York: lunchtime		
Dow Jones Ind Ave	3,806.18	(-1.34)
S&P Composite	462.26	(-0.02)

■ US LUNCHTIME RATES

Federal Funds:	4 11/16%
3-mo Treas Bills: Yld	5.329%
Long Bond	92 5/8
Yield	8.156%

■ LONDON MONEY

3-mo Interbank	6 1/16%	(6 1/16%)
Liffe long gilt future:	Dec 100 11/16	(Dec 101 1/32)

■ NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$17.24	(17.68)

■ Gold

New York Comex Dec	$383.1	(384.7)
London	$383.05	(384.0)

■ STERLING

New York lunchtime:		
$	1.6145	
London:		
$	1.6131	(1.6087)
DM	2.4473	(2.4501)
FFr	8.3847	(8.4067)
SFr	2.0486	(2.0504)
Y	156.956	(157.277)
£ Index	80.6	(same)

■ DOLLAR

New York lunchtime:		
DM	1.51545	
FFr	5.199	
SFr	1.268	
Y	97.305	
London:		
DM	1.5172	(1.5235)
FFr	5.198	(5.2275)
SFr	1.27	(1.275)
Y	97.31	(97.8)
$ Index	61.4	(61.6)

Tokyo close Y 97.31

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft165	Morocco	MDh15	Singapore	S$4.30		
Bulgaria	Lev80.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50		
Cyprus	C£1.10	India	Rs60	Nigeria	Naira90	S. Africa	R12.00		
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30		
Estonia	EKr 20	Jordan	JD1.50	Philippines	Peso50	Syria	S£50.00		
Finland	FM14	Kuwait	Fils625	Poland	Zl 36,000	Tunisia	Din1.500		
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)	Es225	Turkey	L30000		
Germany	DM3.50	Lux	LFr65			UAE	Dh12.00		

EU drops plan to ease multinationals' tax burden

By Emma Tucker in Brussels

The European Commission yesterday dropped proposals to reduce the tax burden on European companies with subsidiaries in more than one EU country.

The draft directive, aimed at ending double taxation on crossborder operations between parent companies and subsidiaries in other nations, was abandoned after a four-year deadlock.

Mrs Christiane Scrivener, commissioner responsible for taxation, told a meeting of EU finance ministers in Brussels that she was withdrawing the proposals because of the staunch opposition of certain countries, notably Portugal but also Belgium and Greece.

The failure of member states to reach agreement represents a blow to the single European market, and will irritate European multinationals.

The lack of progress also represents a setback for German ambitions to make tax a priority of its six-month presidency of the European Union.

Mr Zygmunt Tyszkiewicz, secretary general of Unice, the European business federation, said yesterday the proposal would have allowed companies to reorganise themselves and operate on a "truly pan-European basis" by avoiding double taxation on interest and royalties payments between companies that were part of the same group.

A problem for trans-European enterprises is that they currently pay withholding tax at source for payments between parent companies and subsidiaries.

Member states which are net importers of technology and capital, such a Portugal and Greece feared the proposal would lead to a loss of revenue.

In less than two months Germany will hand over the chair to the French, and in that time it is unlikely that significant advances will be made on two other key taxation matters: an EU wide system for taxing savings and the introduction of a definitive system of VAT.

Yesterday, EU ministers discussed the continuing problems associated with EU-wide savings withholding tax, which has been consistently opposed by the UK and Luxembourg.

Germany, which suffers considerably from capital flight, would like EU countries to agree on a minimum withholding tax to prevent people moving savings to other countries to avoid paying tax.

Levels of tax currently vary between the member states. Luxembourg, for example, does not levy taxes on savings held by non-residents in the country and fears that an EU-wide tax would benefit other OECD tax havens such as Switzerland and Monaco.

A solution involving deduction at source together with a minimum rate of declaration, favoured by a working party on savings tax, looks unworkable as no advanced system of information exchange on tax exists between states.

Boeing may tie parts deals to aircraft sales

By Bernard Simon in Toronto and Paul Betts in London

Boeing, the world's leading aircraft maker, has started a worldwide review of its purchasing policies to match aircraft parts contracts with aircraft orders from specific countries.

The review could result in the Seattle-based company shifting purchases away from countries, such as Canada, whose governments and airlines have increasingly opted for European Airbus aircraft over Boeing.

Although no decisions have been taken, a Boeing official said yesterday that the review was aimed at directing future Boeing sub-contracting work to countries which bought its aircraft. Boeing's commercial aircraft division buys components from 323 suppliers in 38 countries outside the US.

The company, which has traditionally controlled about 60 per cent of the world's commercial aircraft market but has been facing intense competition from Airbus, is seeking to expand its presence in the fast-growing Asia-Pacific market by offering sub-contracting work to Japanese and Chinese manufacturers, and to aircraft makers in other Far Eastern countries. Japanese manufacturers are responsible for about 20 per cent of the work on the Boeing 777, the new twin-engine wide-bodied aircraft that will enter service next year.

Airbus is also stepping up competition in these markets, recently announcing a $25m agreement with the China Aviation Supplies Corporation to set up a flight crew training centre in Peking. The European consortium has also been in talks with Japanese manufacturers to interest them in possible collaboration over a new 800-seat aircraft.

Boeing's move was disclosed by Mr Ron Woodard, president of the company's commercial aircraft group, in a speech to the Aerospace Industries Association of Canada.

Mr Woodard complained that the Canadian defence department had not given Boeing an opportunity to bid on replacements for a fleet of Boeing 707 airliners. Instead, the Canadians bought five twin-engine wide-body Airbus A-310s.

Boeing warns of battle for clients ....Page 5

He noted that Boeing has spent about C$800m (US$590m) annually in Canada over the past three years. But sales had dwindled to about C$30m a year, all on components and none on new aircraft.

"Our Canadian business placement must understandably be market based, as it is elsewhere," Mr Woodard said. "Boeing supports the principal of the level playing field. We don't ask for special considerations and we don't want to have to compete against special considerations granted [to] others."

Mr Woodard's comments have been interpreted as a shot across the bows of Calgary-based Canadian Airlines International, which is expected to place sizeable orders over the next few years to replace its Boeing 737 twin-engine, narrow-body fleet.

Boeing warns of battle for clients. Page 5

On guard: an Israeli border policeman stands yesterday at the door of the Isaac Hall in the Cave of the Patriarchs in Hebron, the scene in February of the killing by an Israeli settler of 30 Palestinians. Workmen were carrying out final repairs before the hall was reopened yesterday for worship by Jews and Moslems, amid tight security. Picture: Reuter

Peace hopes renewed in Bosnia

By Laura Silber in Belgrade and Bruce Clark in London

Bosnian Serbs may soften their opposition to international peace proposals as a results of their military reverses over the past two weeks, the top UN official in former Yugoslavia said yesterday.

Mr Yasushi Akashi, the Japanese diplomat who heads the UN's 40,000-strong mission there, said the Serbs would probably respond to the present offensive with a counter-attack, but then a military balance would be reached.

British officials said they doubted whether the present upsurge in fighting would lead to a positive result. They urged all parties to abandon the idea of a military solution to the Bosnian conflict.

In a further sign of international disunity, British officials disclosed that they and their French counterparts had launched a discreet diplomatic campaign to dissuade other members of the UN security council from voting with the US to authorise arms supplies to Bosnia.

Mr Akashi said Mr Radovan Karadzic, the Bosnian Serb leader, might step back from his outright rejection of the international peace plan drawn up by a contact group consisting of the US, Russia, Britain, France and Germany.

"With the change of situation, they may become more amenable to talking with the contact group," Mr Akashi said of the Bosnian Serbs.

In Bosnia, a Serb commander threatened to seize back all the heavy weapons that his army had

Continued on Page 18

Clinton warns on Congress as poll campaign nears close

By Jurek Martin in Washington

US President Bill Clinton spent the final 24 hours of a bruising mid-term election campaign issuing dire warnings yesterday about the consequences of the Republicans gaining control of Congress.

"Why," he said in Minneapolis, "would we want to give Congress to people who want to take us back to what almost wrecked us in the 1980s?" Republican campaigns were based on "malice and cynicism", he said.

However, most of the opinion polls and much of the political comment ahead of today's polls suggest that the Republicans are poised to regain control of the Senate, which they last commanded in 1986. Even the House of Representatives may fall to Republican control for the first time for 40 years. Democrats also expect to lose several of the 22 governorships they are defending out of the 36 to be decided today.

The two Republican leaders, Senator Bob Dole and Congressman Newt Gingrich, forecast in the past 24 hours that the party would win majorities in both chambers. Mr Gingrich put the likely Republican gain in the House, where a 40-seat net gain would make him Speaker, at between 30 and 75 seats.

A New York Times analysis identified 124 seats as very competitive in the 435-member House. Of those, 89 were being defended by Democrats and only 34 by Republicans, with the lone independent Congressman, Mr Bernie Sanders of Vermont, also under threat from Republican opposition.

Mr Clinton spent his final hours of campaigning in three states where Democratic Senate candidates are given a chance of winning today. He started in Minnesota, where Ms Ann Wynia is even with Republican Rod Grams for the seat being vacated by Republican Senator David Durenburger.

He moved on to Michigan, where Congressman Bob Carr, the Democrat, appears behind Mr Spence Abraham in the race to succeed the retiring Senator Don Riegle, the Democrat. Last stop was in Delaware, where Mr Charles Oberly, the Democratic state attorney-general, is trying to unseat Senator William Roth.

In New York, Governor Mario Cuomo was leading Republican Mr George Pataki by 50 per cent-37 per cent in one survey, but by only 44 per cent-40 per cent in another.

In Virginia, the weekend Richmond Times-Despatch poll gave Senator Charles Robb, the Democrat, 39 per cent to 31 per cent for Republican challenger Mr Oliver North.

Republicans eye Senate, Page 4

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NEWS: EUROPE

Growing fear of No vote galvanises the pro-membership camp

Swedish leaders plead EU cause

By Hugh Carnegy in Stockholm

Sweden's senior political leaders yesterday moved to bolster faltering support for joining the European Union, sounding an anxious chorus of warnings about the serious economic consequences facing the country if it rejects membership in a referendum next Sunday.

A series of opinion polls suggesting a swing towards the anti-EU campaign alarmed Stockholm's financial markets, weakening the krona, knocking more than 1 per cent off share values on the Stockholm Stock Exchange and pushing up yields on five-year government bonds to more than 11 per cent. This further widened the premium paid on Swedish debt compared with most of its European competitors.

Mr Ingvar Carlsson, the prime minister, his top ministers and opposition leaders said worse would follow if the outcome on Sunday was a No vote, with damaging effects on the country's effort to control its big budget deficit and fast-growing state debt. Mr Göran Persson, the finance minister, said he would have to add to the SKr51bn (£4.3bn) package of tax increases and spending cuts he announced last week.

"With a No, I would be forced to go back to the Riksdag [parliament] this month with proposals for further financial measures – this is undeniable," Mr Persson said.

Opinion polls suggesting a swing towards the anti-EU campaign have alarmed the financial markets

Mr Carl Bildt, the conservative former prime minister ousted by the Social Democrats in September's general election, said the prospect of a No vote was "deadly serious". "The No side now owe citizens an answer on how they consider the dangerous and damaging interest rate consequences of their policy would be managed," he said.

Most of the latest opinion polls have given the No side only a marginal lead at best. But what has worried the Yes camp is an apparent break in a trend of growing support for membership which followed the general election.

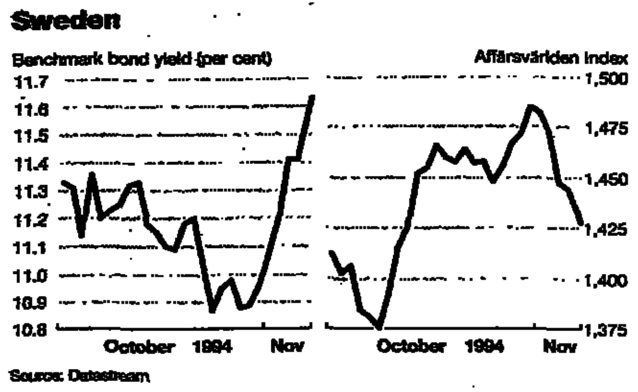
Pro-EU campaigners, trying to steady their nerves, point out that opinion polls in Austria also lurched towards the No campaign shortly before the referendum there on EU membership in June, but the result was a hefty majority in favour of more than 66 per cent.

The latest polls have galvanised the Yes campaign. With the full weight of the political and industrial establishment now uniting for a Yes vote – and many voters still undecided – a Yes is still quite possible.

However, anti-EU feeling has always been far more deeply entrenched in Sweden than it was in Austria, with all polls in the two years until late summer showing a lead for the No camp.

A No vote in Sweden, the biggest of the three Nordic applicants, would be a serious snub to the European Union. It would almost certainly presage a rejection of membership in Norway, which votes on November 28. That would leave only Austria and Finland of the four European Free Trade Area countries which have negotiated entry terms set to come in.

Even in Finland a small doubt has crept in following the postponement on Sunday of parliamentary ratification of last month's referendum approval until after Sweden has voted. Finnish EU opponents are hoping that a No vote in Sweden might win over enough MPs to form the necessary one third minority needed to block ratification – although most observers doubt their chances.



Source: Datastream

In Sweden, there is concern among Yes campaigners that they may have miscalculated their tactics by being too defensive and unfocused, running, for example, posters proclaiming "It is more fun to say Yes", or showing stereotyped citizens of EU countries saying "Welcome Sweden".

This allowed the No side, dominated by the left and environmentalists, to seize the initiative by playing on fears that EU membership would erode the country's democratic traditions, neutrality and its "Swedish model" welfare system.

Mr Bildt and his supporters are critical of Mr Ingvar Carlsson, the prime minister, for deliberately adopting a low-key pro-EU campaign in which the new government has not adopted an official pro-Union position. Mr Carlsson was wary of mounting a strident campaign for fear of alienating many Social Democrats who are sceptical about or hostile to the EU.

Instead, he appointed two prominent anti-Union campaigners to his cabinet and allowed anti-EU Social Democrats to run their own party-financed campaign.

Critics say this has made the task of winning over opinion within the ranks of the party, by far the country's largest political organisation, much more difficult.

See Lex

Russians set for Kazakh gas share

By Steve LeVine in Moscow and Robert Corzine in London

Russia is set to be included in a $6bn proposal to develop Kazakhstan's largest gas field, as pressure mounts on the western partners in the deal to reach agreement with Moscow by the end of November.

Kazakhstan television reported that Mr Yeset Azerbayev, head of the state gas company, had urged British Gas and Agip, its Italian partner, to approve by November 30 a proposal for Gazprom to join the development consortium with a 15 per cent share of the two western companies' stake in the huge Karachaganak gas field.

He threatened to scrap an agreement giving the two companies exclusive right to negotiate the development of the field unless they meet the deadline.

"If it is not signed by November 30, then we shall consider ourselves free from any obligations under the agreement with the British Gas and Agip joint venture which we signed in June 1992," Mr Azerbayev said.

Inclusion of Gazprom is meant to persuade the company to agree to ship Karachaganak's production through Russia's pipeline system to markets in the west.

Gazprom discovered and partially developed Karachaganak. It also controls a large gas treatment centre outside the nearby Russian city of Orenburg, which was built in large part to process Karachaganak gas.

The field contains proven reserves of 1.3 thousand billion cubic metres of natural gas, 650m tonnes of gas condensate and 200m tonnes of oil.

British Gas says no official deadline has been set, although dates have been suggested for the completion of the current round of negotiations with the Kazakhs.

The company has been negotiating separately with Gazprom over transport and tariff issues, as well as discussing the terms of its possible participation in the scheme. The talks have been complicated by uncertainty within Gazprom over which Russian fields it wants to develop for future export and domestic sales.

The Kazakh threat against the western partners may just be an attempt to get the long-delayed project moving. But it also indicates the pressure under which the Kazakh government is operating to generate hard currency export earnings.

Russia has recently made clear that it wants to take part in large energy projects discovered during the Soviet era and now proposed for development in the former Soviet republics surrounding the Caspian Sea. Lukoil, a Russian oil company, this year succeeded in getting a 10 per cent share of an $8bn Azerbaijan oil deal led by British Petroleum.

But the Kazakhstan project appears to be the first in which Russia is poised to acquire a percentage of the western partner's share.

Brussels balks at German TV venture

By Emma Tucker and agencies in Brussels and Michael Lindemann in Bonn

The European Commission is understood to have serious reservations about a planned joint venture by two big German media groups and the state telephone monopoly.

The proposed venture between Bertelsmann, the world's second largest media group, Kirchgruppe, one of Germany's biggest private television companies, and Deutsche Telekom has been under investigation by the Commission since July, following fears that it could create a dominant position in the German market for pay television services.

The companies intend to set up a company, to be known as MSG Media Service, to provide infrastructure, marketing and booking services for commercial pay-TV, including such services as video-on-demand, home banking and interactive television.

Suspicions that the deal contains anti-competitive elements have emerged following a far-reaching probe by Brussels and an intense lobbying campaign by the main participants.

The Commission has not yet taken a decision to block the deal, but pressure is mounting on Bertelsmann, Kirch and Deutsche Telekom to make adjustments to the joint venture. "The companies' proposal is unacceptable," a Brussels official said. "They know it and [competition commissioner Karel] Van Miert told them again today."

The deal is likely to be blocked at the Commission's meeting tomorrow unless the companies came up with the necessary changes to meet competition rules.

Mr Van Miert yesterday met representatives of the companies concerned, the official said. The Commission is expected to announce its decision over the next two weeks.

The joint venture plans to manage and distribute new television channels, as well as other specialist telecommunications services on Telekom's network. The company would distribute new pay-TV programmes, shopping-TV and other services to 14.9m households which already have access to the cable network. Telekom has laid the network for a further 6m.

The three partners are estimated to have invested around DM200m (£82m) and are planning to develop their own decoding system which would offer viewers a single billing system, charging them for what they watch.

Bertelsmann and Kirch are normally fierce rivals but both are already shareholders in Premiere pay-TV.

In July, when the Commission announced it would undertake a full investigation, it said it was concerned that the pay-TV market would expand rapidly with the introduction of digital broadcasting in Germany over the next few years. A very large number of households already receive cable or satellite television.

Brussels is particularly uneasy that by dominating the pay-TV infrastructure at an early stage, the joint venture would control standards for any newcomers.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN: ISSN 0174-7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.
FRANCE: Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.
DENMARK: Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 Copenhagen-K. Telephone 33 13 44 41, Fax 33 93 53 35.

Referendum blocks president's attempt to increase his powers

Albanians reject new constitution

By Anthony Robinson

Albanian voters have overwhelmingly rejected a constitution drafted by President Sali Berisha which would have further shifted the balance of power from parliament to the already powerful presidency. Preliminary results indicate that more than 60 per cent of voters rejected it in a weekend referendum called by Mr Berisha in breach of the existing constitution.

The revised communist-era document in force since 1991 reserves the right of drawing up and approving a new constitution to parliament. But Mr Berisha, whose Democratic party won a landslide victory in the 1992 elections, has faced mounting opposition in parliament and within his own party for his increasingly autocratic style. As a result he has lost the ability to force legislation through parliament.

Last month more than a third of MPs from the government party abstained in a parliamentary vote which deprived President Berisha of the majority needed to legalise a referendum by which he sought to by-pass parliament.

The outcome of the vote is thus a striking confirmation of Albania's conversion to democracy after decades of dictatorial rule by Mr Enver Hoxha and his Communist party minions followed by only three years of multi-party politics.

But it also marks a severe personal blow to Mr Berisha. The former heart surgeon presided over a spectacular economic recovery from the ruins of the bankrupt autarchic system inherited from 45 years of communist rule. However, he antagonised many former supporters by riding roughshod over parliament and by an increasingly personalised style of government.

Rejection of the proposed constitution is expected to embolden the various opposition groups, including the former communist Socialist party whose leader Mr Fatos Nano was jailed for alleged corruption last year. It is also expected to encourage opposition parties, such as the Democratic Alliance led by Mr Gramoz Pashko, to patch up their feuds and press for early elections.

But the electorate's refusal to endorse the new constitution, which would have given the president the power to appoint and dismiss the prime minister, appoint ministers and preside over the supreme court, will further delay Albania's entry into the Council of Europe. One of the requirements of entry is a legitimate, democratic constitution. But Albania also faces objections from Greece because of alleged discrimination against the ethnic Greek minority in the south.

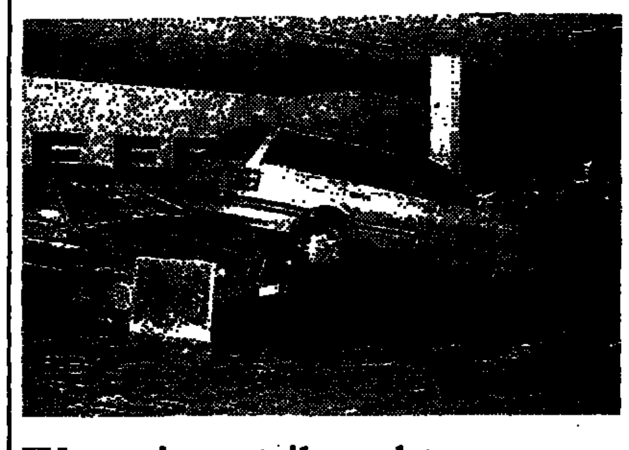
EUROPEAN NEWS DIGEST

Floods death toll mounts

The worst rainstorms to hit north-western Italy for 80 years have killed 59 people and authorities fear the final death toll could be well over 100. Continuing bad weather is hampering rescue work and could cause further deaths in what Mr Altero Matteoli, environment minister, has called a "mega-disaster". Telephones, water, electricity and roads were also cut in hundreds of villages across southern France, Spain and across the Mediterranean in Morocco. In France, where seven people have died since the weekend, floods forced the closure of Nice-Côte d'Azur international airport (whose inundated car park is pictured below).

In Italy, hundreds of people remained trapped and unaccounted for in isolated areas and figures compiled locally in Piedmontese towns, many of which were without power and other supplies, put the number of missing far higher.

Weekend storms in which 60cm of rain fell in as many hours have turned rivers into raging torrents and demolished houses beneath mountains of mud. Fifty-seven of the known deaths occurred in Piedmont, including more than 20 around the town of Cuneo, where many of the victims drowned trapped in their cars. In Asti, famous for its *spumante* sparkling wine, one rescue official said: "About 2,000 two-storey buildings are up to their roofs in water." *Reuter, Alessandria, and AP, Alba*



War crimes tribunal to open

An international war crimes tribunal covering the former Yugoslavia formally opens in The Hague today with a request for the extradition from Germany of a Bosnian Serb alleged to have killed three Moslem prisoners. The prosecutor, Mr Richard Goldstone, a South African judge, will ask Germany to hand over Mr Dusan Tadic, who is alleged to have murdered the prisoners at the Omarska concentration camp in Serb-held northwestern Bosnia in 1992. Mr Tadic was arrested in Germany last year.

The extradiction is important to the tribunal – the first international war crimes court since the Nuremberg trials after the second world war – because it has no power to try suspects *in absentia*. Jail cells have been set aside in a Dutch prison in The Hague, but so far they remain empty. *Ronald van de Krol, Amsterdam*

Proposal on Kurdish language

Turkey's foreign minister, Mr Mümtaz Soysal, said in a newspaper interview yesterday that Kurdish could be taught in schools and used in broadcasting. At present, schools must teach in Turkish and no broadcasting organisation or newspapers use Kurdish, a language spoken by one fifth of the country's population of 60m. However, Mr Soysal said he would insist that Turkish was still taught as a first language.

The separatist Kurdistan Workers party (PKK) has waged a 10-year war that has claimed more than 13,000 lives. Prime minister Tansu Çiller has adopted a hardline anti-PKK policy, rejecting calls to grant Kurds cultural rights and autonomy. Neither Mrs Çiller, on a state visit to Egypt, nor her office could confirm that Mr Soysal's comments represent a new government initiative. The unpredictable Mr Soysal, foreign minister since August, belongs to the junior SHP party in Mrs Çiller's coalition government. *John Barham, Ankara*

Romania relaunches state sales

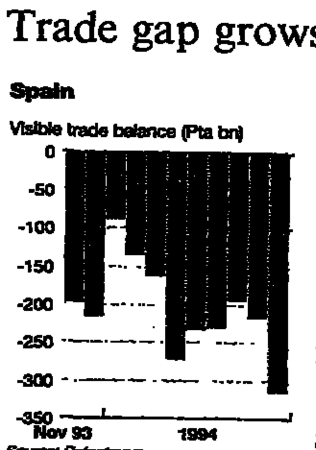
The Romanian government yesterday attempted to relaunch its privatisation programme by opening public offerings for three medium-sized state companies, the first such offerings for 18 months. The offers are open first to employees, who will be able to purchase on preferential terms up to 20 per cent of the companies, which are together valued at Lei44.5bn (£16m). The general public will able to buy up to 30 per cent of the remaining equity later this month. It will be one of the first times the public can use privatisation vouchers distributed in 1992 to bid for companies. Only two companies have been sold by public offer so far under the country's privatisation scheme. Reformers hope the offers will rekindle the population's interest in privatisation and lead to pressure on the government to speed up the process, which has been blocked by conservatives within the governing Party of Social Democracy. *Virginia Marsh, Budapest*

Offer ends Pechiney strike

Striking workers at Pechiney's huge new aluminium factory at Dunkirk yesterday ended their 13-day stoppage after management gave them an extra FFr600 (£71) a month. Workers at the smelter, which has a capacity of 215,000 tonnes or almost half France's total output, had demanded FFr1,000 a month on top of their average monthly pay of FFr11,500. During the strike, managers kept the three-year-old plant's continuous smelting process going, producing low-grade aluminium which will now be recycled. Partly as a result of voluntary production cuts agreed by western and Russian aluminium producers, the market for the metal has greatly improved this year. But demands for higher pay have also sparked strikes. The number of industrial disputes in France, though still very low, appears to be rising with the current improvement in the economy. *David Buchan, Paris*

ECONOMIC WATCH

Trade gap grows in Spain



Source: Datastream

Spain's January-September accumulated trade deficit widened by 5.1 per cent to Pta1,860bn (£9.1bn) against the first nine months of 1993 despite a continuing strong performance by the export sector, which grew by 33 per cent over the period. The volume of imports and exports is expected to increase during the fourth quarter of the year, although year-on-year growth rates will be more moderate because trade already began to increase strongly in the final three months of 1993. The finance ministry said import growth showed that domestic demand was expanding at a higher rate than forecast. *Tom Burns, Madrid*

■ Greece had a $23m (£14m) current account surplus in July, against a July 1993 surplus of $1.152bn. The January-July current account deficit was $1.071bn, sharply off a $205m surplus in the same seven-month 1993 period.

■ Austrian unemployment in October was steady from September at 4.4 per cent of the workforce, but was up from 4.2 per cent in October last year.

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NEWS: EUROPE

Russia tries to end securities market chaos

By John Lloyd in Moscow

President Boris Yeltsin of Russia issued a long awaited decree yesterday, aimed at regulating the country's fledgling and chaotic securities market.

The decree, in part a reaction to the collapse of the MMM finance company in early autumn which ruined thousands of small savers, should also provide a legislative underpinning to a market in which both domestic and foreign investors have been wary of investing because of the lack of an adequate method of registering shares.

The decree, as reported by the Interfax news agency, says that all banks and other financial institutions must be licensed by the government - "in concert with the central bank" - by the end of the year. It allows the distribution of government securities, registered shares of corporations and banks, options and warrants of securities, bonds, housing certificates and other securities permitted by law.

Several Russian funds have taken advantage of investors' gullibility by offering high rates of interest, sucking in money and then either vanishing or closing down. The most notorious collapse was that of the MMM fund, whose head Mr Sergei Mavrodi is now ignoring investors' demands for their money back since he suspended trading in company shares.

The Yeltsin decree also orders the formation of a federal commission for securities and the stockmarket, to be headed by Mr Anatoly Chubais - the new first deputy prime minister for the economy and finance. Previous rules and decrees for a commission affiliated to the president's office have been scrapped.

The present commission, largely inactive, has been composed of representatives from the central bank, the ministry of finance, the anti-monopoly committee and other official organisations. The president's decree calls for a list of members of the new commission to be drawn up within a month - and for the commission to set out a licensing procedure and define the responsibilities of the financial institutions operating in the market.

The decree has been issued as work advances on establishing a country-wide network of brokers to deal in the shares of the 20,000 companies the privatisation process has brought on to the market and to cater for an estimated 40m shareholders. Groups of brokers have been assembled in Moscow, St Petersburg and the other main regions of Russia - and a dealing system based on the Nasdaq screen-based model should be in place by early next year.

A consultant to the government charged with developing the broker network said last night: "In a country the size of Russia, with so many regional centres across eight time zones, we will see emerging a system where most deals are handled by regional dealers, handling regional companies, for regional investors. However, maybe 100, growing to 500, companies will be of interest to foreign investors."

The decree does not make clear, however, how far the central bank will have responsibility for regulating and intervening in the market, if at all.

The issue could be important as there is a fierce debate in Russia on the relative benefits of the Anglo-American system of raising capital largely through a freely operating stock exchange, and the German system whereby commercial banks, under Bundesbank regulation, play a larger part in capital provision and often join in the management of big industrial companies.

However, the most influential Russian officials concerned with the development of the markets - especially Mr Dmitri Vassiliev, the deputy chairman of the privatisation committee, appear to prefer the Anglo-American model.

Twisting and turning, page 16

Dollar axis: doubles of Lenin and Hitler earning foreign currency in central Moscow yesterday by posing with foreign tourists AP

Appointment of new negotiator causes concern on markets

Moscow debt fears resurface

By John Lloyd

The future of Russia's negotiations on a debt which totals $90bn (£55bn) are now causing concern on the world's financial markets following the appointment over the weekend of Mr Oleg Davydov, the trade minister, to the post of chief debt negotiator.

Mr Davydov, who has had little experience in the world of debt negotiations, inherits a complex portfolio which had been commanded by Mr Alexander Shokhin, the deputy premier for the economy who resigned on Friday. Mr Shokhin had proposed that the negotiations be continued by Mr Andrei Vavilov, the first deputy finance minister, but the latter is under a cloud because of his alleged negligence on "Black Tuesday" a month ago, when the rouble lost more than 20 per cent of its value.

Mr Davydov, uninvolved in "Black Tuesday", is on record as proposing that Russia should be forgiven its debt - a move which sparked alarm at the time in the Paris and London clubs of government and commercial bank creditors. Mr Shokhin later denied that this was a serious option for Russia.

"Davydov is very much not a banker and will take time to come up the learning curve on debt," said one merchant banker yesterday. "He may change his views, but it's alarming."

Deutsche Bank, the leading German bank which heads the negotiations on the repayment of bank debt, is due to hold a further round of negotiations next week.

Whether or not the Russian side agrees to keep to this schedule is now regarded as an early test of the intentions of Mr Davydov.

Outline agreements were thrashed out in Madrid for both sets of talks - agreements which Mr Shokhin expressed satisfaction with, although important issues still have to be settled.

Both provisional deals involve restructuring the debts over 15-18 years, with a five-year grace period for at least the repayment of principal.

In the case of the commercial bank debt, the agreement also includes a repayment of interest over 10 years, possibly with a five-year grace period - and with a payment of $750,000 on the interest accruing this year and last, to be made before the end of 1994. Talks were stalled by the crash of the rouble a month ago - and are again in doubt because of the cabinet changes still going on.

However, Mr Madhav Dhar, a managing director of Morgan Stanley in New York, said last night: "Russia is getting very hot now a lot of people see it as the new frontier, but are prevented from buying equities because of legal problems. The next best thing is debt - and that will sustain the market in spite of the changes, which at present seem clearly negative."

Russian debt slipped from around 35 cents to the dollar to 28 last week. Ironically, it recovered yesterday to around 30 cents to the dollar as big buyers, rumoured to be from within Russia itself, pushed up the price. One London analyst of the market said last night: "It is a very volatile market with enormous flows going both ways right now. People are simply divided on the issue of what the changes mean in the short and longer terms."

Lionel Barber reports on UK resistance to Germany's aid call

EU split over Ukraine loan

A German-led drive to promote an activist European Union policy to assist Ukraine yesterday ran into resistance from Britain and other member states.

The split occurred at a meeting of EU finance ministers in Brussels yesterday over a proposal to provide an Ecu85m (£67m) balance of payments loan to Ukraine.

It suggests that the EU is divided over the key question of whether President Leonid Kuchma can deliver on his promises of economic reform. In the background are differing assessments of Ukraine's chances of remaining a viable state in relation to neighbouring Russia.

Germany - supported by the US and the European Commission - is pressing for early, generous financial aid to President Kuchma. Their collective view is that a narrow window of opportunity exists in order to stave off economic collapse and preserve Ukrainian independence.

But the UK government is pursuing a more cautious policy.

Senior British officials are understood to have doubts about President Kuchma's ability to face down the diehard conservatives in the Ukrainian parliament, and want tighter controls on western aid via the International Monetary Fund.

Other EU member states - notably the UK, France and Italy - are also reluctant to allow the Commission to play an active role in promoting and operating balance of payments loans to the former communist countries of central and eastern Europe.

Their reluctance is symptomatic of the broader battle over how far the Commission should take the lead in the development of a common foreign and security policy in Europe as laid out in the Maastricht treaty.

More narrowly, the Rome government is reluctant to support a balance of payments loan since Ukraine has yet to settle outstanding debts with Italian companies. Ukraine, with a population of 53m people, has a total foreign debt of around $7bn (£4.2bn).

Since President Kuchma's election last July, the Kiev government has launched a campaign to persuade western donors that it is committed to economic reform and that they should provide financial aid and debt relief.

Last month, the Ukrainian national bank passed a decree to unify the exchange rate, one of the measures which international creditors said was essential for the credibility of the reform programme.

British officials are understood to doubt President Kuchma's ability to face down the conservative diehards and to want tighter controls on western aid

The government also announced bold measures to liberalise prices and exports which would cut subsidies on food, rents and energy.

President Kuchma told western donors at a Group of Seven-organised conference in Canada that the reforms hinge on immediate western aid and a successful debt rescheduling to cover its $600m four-quarter balance of payments deficit.

The US committed $70m, and pledged to raise the total to $100m if the EU provided similar balance of payments aid. Canada pledged $25m.

Last night, German officials held out hope of a political commitment to provide aid to Ukraine.

Though this would fall short of a formal decision on balance of payments support, but it would keep alive hopes of winning the necessary support from the European parliament later this month.

Polish coalition threatened by row over privatisation policy

By Christopher Bobinski in Warsaw

Differences over privatisation policies are threatening to undermine Poland's governing coalition, which is made up of the former communist Left Democratic Alliance (SLD) and the Polish Peasant party (PSL), led by prime minister Waldemar Pawlak, who begins a two-day visit to London today.

The row centres on Mr Bogdan Pek, a PSL deputy and the head of the Sejm's (parliament) key privatisation committee. His SLD colleagues are planning to replace him at a meeting today in a move signalling the need to speed up the disposal of state enterprises.

The SLD is supported in its drive against Mr Pek by the opposition Freedom Union (UW), which made up the bulk of the last non-communist, Solidarity-rooted government led by Ms Hanna Suchocka. This raises the prospect of a future switch away from the present alliance with the PSL, unthinkable a year ago when the present government came into power.

In the short term the move also gives the SLD, which is afraid that the PSL is beginning to dominate the coalition, the chance to wave the threat of a political realignment to gain more of a say over policy.

The delays in implementing the Mass Privatisation Programme have jeopardised revenues written into next year's budget

A meeting of the SLD leadership at the weekend confirmed that the present coalition, which enjoys a comfortable parliamentary majority, should be maintained but that government policies lacked co-ordination and a clear strategy. The two parliamentary caucuses are due to meet on November 15 to thrash out differences.

In a related development, local councillors in Warsaw from the SLD and the UW have combined to elect Mr Marcin Swiecicki from the UW as the city's president in the face of opposition from the PSL. This shows that the two movements can now work together.

Mr Pek, an accountant from Krakow, has outspokenly criticised the privatisation policies of former governments and has come to symbolise opposition to the process as a whole. Indeed he is against the sale of sectors such as the tobacco industry, as planned by Mr Wieslaw Kaczmarek, the SLD privatisation minister.

Mr Pek, like Mr Pawlak, is also deeply suspicious of the country's long-delayed Mass Privatisation Programme (MPP). This involves the transfer of 444 state companies to private ownership through 15 or so closed-end investment funds whose shares are to be distributed to the population at large at a nominal fee.

Yesterday Mr Kaczmarek, warned that continuing delays in implementing the programme meant that 4,000bn zlotys (£100m) of revenues from the sale of fund shares, written into next year's budget, could be jeopardised.

The SLD is a strong supporter of the programme which now needs Mr Pawlak to approve a list of fund directors without whom the scheme cannot move ahead.

US increases troop pullout

14,000 personnel will quit Haiti and Kuwait, writes George Graham

The US plans to withdraw nearly 14,000 of its troops from Kuwait and Haiti over the next six weeks.

The withdrawal will leave around 9,000 US troops in Haiti to supervise the parliamentary elections scheduled for January, but in Kuwait the US will keep only prepositioned heavy equipment and aircraft.

Administration officials said the decision, approved by President Bill Clinton at the weekend, had nothing to do with today's congressional elections. Indeed, they said the White House had asked the Pentagon not to make a public announcement of the withdrawals because it would look like a political ploy.

"The drawdown of forces in Haiti is linked to mission accomplishment, not to artificial timetables," said Mr William Perry, the defence secretary.

Nevertheless, the news that most of the US soldiers now deployed in Haiti and Kuwait will be home in time for Christmas is expected to be popular.

Mr Clinton had hinted at a December pullout when he visited US troops in Kuwait recently, telling soldiers not to forget their Christmas shopping.

This had reportedly caused some morale problems among soldiers in Haiti, who felt they were being overlooked.

The 7,800 US troops in Kuwait are expected to be back in the US by December 22. The troops were sent to Kuwait after Iraq had shown some signs of threatening a second invasion of the emirate by building up its forces in the south.

The navy and marine forces already in the Gulf region before the Iraqi build-up will stay in position, and the US will also keep an extra 50 warplanes, mostly ground attack aircraft, in the Gulf.

The US has already withdrawn 6,000 of the 21,000-strong force it sent to Haiti in September to oversee the safe return of President Jean-Bertrand Aristide and to ensure the departure of the military leaders who ousted him in a coup in 1991.

This weekend's order will mean that another 6,000 troops can return to the US by December 1.

US officials said that troops from other countries such as Bangladesh had now taken over some of the security duties originally fulfilled by the US occupation force.

In addition, around 3,000 Haitians trained by United Nations instructors are expected to be ready to take over policing responsibilities next month.

In Port-au-Prince yesterday, a new prime minister was expected to take over after a vote of confidence in the lower chamber of the Haitian parliament.

Mr Smarck Michel, chosen by Mr Aristide for the post, had already won approval from the Haitian senate.

The 9,000 US troops remaining in Haiti are expected to be withdrawn gradually after the parliamentary elections are completed.

Clinton with baby at Seattle campaign rally

Brazil warns Rhône-Poulenc on toxic waste

By Patrick McCurry in São Paulo

Brazilian authorities are threatening to restart legal action against Rhône-Poulenc, the French chemical company, unless an agreement is reached over the decontamination of toxic waste deposits.

The public prosecutor in Cubatão, São Paulo state, alleges that Rhodia, the company's Brazilian subsidiary, dumped 10-12 tons of toxic residues along a 100km stretch of road near the port of Santos between 1966 and 1984.

He also claims that the company put workers at risk by exposing them to residues at its Cubatão solvents plant, closed down by a court order in June 1993. The order was requested by the prosecutor because of fears about workers' safety. The factory remains out of service and there has been no appeal by the company.

Mr Geraldo Rangel, the prosecutor, said among the substances dumped was hexachlorobenzine (HCB), which he said was considered a "dangerous residue" by the US Environmental Protection Agency.

Mr Lisê Monteiro, Rhodia's environmental manager, accepted the company dumped waste from 1976 to 1978 but says the practice was then stopped. He denied that there had been any risk to workers' health from exposure to residues at the plant.

The case has been under way for some time. In 1988, after pressure from the state environmental agency, the company installed an incinerator to burn contaminated earth that it had recovered from the deposits. Mr Monteiro said 90 per cent of the soil contaminated by HCB had been recovered and burned.

Rhodia said it acquired the plant in 1976 following a merger in France. A shareholders list supplied by the public prosecutor indicates the plant was controlled by Rhone-Poulenc from at least 1972.

The prosecutor's office suspended its action against Rhodia in February in an attempt to reach an out-of-court settlement. Mr Rangel said this was because a case could last five years.

The company, which had a turnover of $900m last year, has so far spent $60m on decontamination measures. It has agreed to a request by the prosecutor to pay for the medical examination and monitoring of 153 former plant workers who were found to have HCB levels of up to 16 microgrammes per decilitre of blood. Doctors consulted by the prosecutor's office said more than 1 microgramme was dangerous.

Rhodia maintains the levels of HCB found in the workers' blood is not dangerous. Mr Monteiro said the company carried out regular medical checks of workers and no medical problems caused by the presence of HCB were found.

The two sides have not yet been able to reach an agreement on measures to be adopted for decontamination.

David Pilling previews what amounts to a poll on the reforms of the past five years

Uruguay elections marked by factionalism

In Uruguay, elections come only once every five years, but when they do they all come together. On November 27, 2.8m Uruguayan voters will elect a new president, 90 deputies and 30 senators (the entire congress) and 19 governors.

As if this were not enough, the electoral system, described as "crazy" even by government ministers, combines party primaries with national elections, leading to fierce factionalism.

Three competing candidates for president have emerged from the governing National party, or Blancos, while the opposition Colorado party, not to be outdone, has three of its own. Altogether there are 21 hopefuls for president.

Elections have transformed Uruguay – normally a tranquil, relatively prosperous backwater wedged between Argentina and Brazil – into a frenzy of music-blaring campaign buses and party pamphlets littering the cobbled streets.

At issue, in essence, is whether Uruguayans support or reject the neo-liberal reforms that have been tentatively ushered in by the current Blanco president, Mr Luis Alberto Lacalle. Mr Lacalle has tried to re-impose fiscal discipline, has halved annual inflation to about 40 per cent and opened the economy to foreign competition. He has been less successful in attempts to slim the huge state bureaucracy, to privatise state enterprises or to reform the bankrupt pay-as-you-go state pension scheme.

Elected with only a 22 per cent mandate, Mr Lacalle saw much of his attempts at structural reform beaten back by parliament. He has also faced hostility from a public accustomed to the benefits of Latin America's most developed welfare state. Uruguayans – whose ageing population is being supported by a diminishing tax-paying workforce – are suspicious of all attempts to overhaul the social security system.

A few months ago it seemed that public distaste for Mr Lacalle's policies was certain to return power to the Colorados, led by former President Julio Sanguinetti. Last May, the Colorados were 15 points ahead of the third-placed Blancos in poll ratings, but by November the Blancos had drawn level on 30 points.

"This trend now makes the Blancos the most likely winners ... although the opinion polls do not allow one to predict with certainty," says Mr Michele Santo, contributor to the Busqueda weekly.

According to Mr Augustin Canzani, director of Equipos polling and research consultancy, that turnaround reflects "lagging" recognition of economic progress during the Lacalle term, including accumulated economic growth over the five years of about 19 per cent.

Mr Canzani believes the government, though unpopular for much of its duration, has won an "ideological victory" by persuading the public of the need for responsible economic policies. "Because we never had hyperinflation we never worried much as long as [inflation] stayed below three digits – now we do," he says.

Of the four serious presidential contenders, two Blanco candidates represent a continuation of Mr Lacalle's programme. Mr Juan Ramírez, Lacalle's handpicked successor, and Mr Alberto Volontè, a lawyer and "non-politician", are distinguishable more by their styles than by any ideological difference. Both would seek to bring down inflation further, cut state jobs and push through a repackaged version of privatisation.

Mr Sanguinetti, who offers a social democratic alternative, is campaigning on the issues of unemployment (now more than 8 per cent), a depressed manufacturing sector and the large trade deficit, expected to reach about $900m this year. He recently backed away from suggestions of an export-boosting peso devaluation, but has hinted that he would like to renegotiate some aspects of the Mercosur customs union with Argentina, Brazil and Paraguay.

Mr Tabaré Vázquez, the left-wing mayor of Montevideo, heads the Encuentro Progresista, a broad coalition that advocates an uncertain mix of redistributive and market-oriented policies. Mr Vázquez, who is hugely popular in Montevideo, has so far been unable to build adequate support in the more conservative interior and by November was trailing the Blancos and Colorados by 6 percentage points.

Latest polls show Mr Sanguinetti with 19 per cent, against 11 and 9 per cent for the two Blanco candidates, Mr Volontè and Mr Ramírez respectively. However, because of the peculiarities of the electoral system, such a lead by no means assures Mr Sanguinetti of victory. The president must come from the winning party, so if the Colorados fail to win at party level Mr Sanguinetti would not become president even if he collected the most votes.

Victory may be only the first hurdle. "Whoever wins will probably have even less congressional support than Lacalle," says Mr Canzani.

"The political system functions in a way that encourages factions," says a diplomat, "which makes it difficult to create and maintain a coherent policy course over five years."

Such an analysis augurs badly for those in the government who believe that Uruguay must adapt to the changing times. In order to untap the "colossal potential" of Mercosur's huge market, the country must learn to compete, says Mr Ignacio de Posadas, the foreign minister. Those who believe it can continue to muddle through, ignoring the sweeping changes throughout the continent, are deluding themselves, he says. "That kind of thinking could become very dangerous."

Cubans swim home

Three months ago, they braved the Straits of Florida on makeshift rafts in a bid to escape from Cuba to the US, reports George Graham in Washington. But in a striking reversal this weekend, dozens of Cuban refugees, broke down fences and leaped from a cliff into mine-strewn waters to swim back to Cuba from the US military base at Guantánamo Bay. Fed up after languishing in the camp since August, a group of 85 tried to flee, but only 39 made it to Cuba. The rest were caught by US troops and returned. In all, about 32,000 Cubans are interned at Guantánamo, which the US still leases from Cuba, and in Panama.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	88.5
1987	105.6	100.7	104.0	98.7	80.2
1988	109.9	103.2	105.8	99.1	74.3
1989	115.2	108.5	109.9	101.1	77.3
1990	121.5	113.9	113.7	104.3	78.0
1991	126.6	116.3	117.3	107.8	77.0
1992	130.4	117.7	120.1	108.4	76.8
1993	134.3	119.2	123.3	107.7	78.6
4th qtr.1993	2.7	0.3	3.0	-1.7	78.0
1st qtr.1994	2.5	0.2	3.0	-1.0	78.5
2nd qtr.1994	2.4	-0.3	2.4	-2.3	78.5
3rd qtr.1994	2.9	1.3		-3.4	78.3
November 1993	2.7	0.4	2.5	-0.8	78.7
December	2.8	0.2	3.3	-2.7	78.9
January 1994	2.5	0.2	2.5	-1.1	79.3
February	2.5	0.2	3.3	-0.8	78.7
March	2.5	0.2	3.3	-1.3	78.4
April	2.4	-0.4	2.4	-1.6	78.3
May	2.3	-0.4	2.4	-2.7	78.1
June	2.5	0.0	2.4	-2.6	77.3
July	2.8	0.6	2.4	-2.9	75.9
August	2.9	1.9	2.4	-3.7	76.1
September	3.0	1.4		-3.7	75.0
October					

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.4	103.4	117.4
1987	101.2	92.5	103.1	100.8	120.9
1988	102.2	92.3	107.8	98.2	127.2
1989	104.9	94.2	114.0	96.1	118.5
1990	108.2	95.7	120.1	98.3	105.7
1991	111.6	96.8	124.2	101.8	112.2
1992	113.9	95.8	125.6	111.0	114.2
1993	115.3	94.3	125.6	116.9	130.3
4th qtr.1993	1.2	-2.1	-0.1	4.6	129.9
1st qtr.1994	1.4	-2.2	2.9	3.7	132.4
2nd qtr.1994	0.6	-2.0	4.9	0.0	135.9
3rd qtr.1994	-0.1				136.6
November 1993	0.9	-2.1	1.7	3.4	134.2
December	1.3	-2.2	-1.1	3.4	131.8
January 1994	1.4	-2.1	4.5	3.4	130.2
February	1.4	-2.2	1.7	5.1	135.1
March	1.3	-2.3	2.4	2.6	135.4
April	0.8	-2.2	1.9	0.9	136.8
May	0.6	-2.0	0.8	0.0	135.1
June	0.5	-1.9	9.0	-0.9	135.5
July	-0.3	-1.8	-3.8	0.8	136.5
August	-0.1	-1.7			135.5
September	0.1				135.6
October	0.6				

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.8	109.7
1987	100.1	95.0	108.0	107.1	114.6
1988	101.4	96.2	113.0	108.9	113.2
1989	104.2	99.3	117.3	108.0	110.0
1990	107.0	101.0	123.8	110.3	114.2
1991	110.7	103.4	131.8	115.0	108.5
1992	115.1	104.9	138.6	121.5	112.6
1993	119.6	104.8	146.6	125.8	113.1
4th qtr.1993	3.7	-0.2	n.a.	-1.8	113.0
1st qtr.1994	3.3	0.2	n.a.	-2.9	111.9
2nd qtr.1994	3.0	0.3	n.a.	-6.6	111.6
3rd qtr.1994	3.0	0.8	n.a.		112.5
November 1993	3.6	-0.2	-	-1.9	112.1
December	3.7	-0.1	-	-3.2	111.5
January 1994	3.5	0.0	4.9	-3.2	108.7
February	3.4	0.2	-	-5.4	109.3
March	3.2	0.3	-	-2.4	110.5
April	3.1	0.1	2.0	-8.5	109.9
May	3.0	0.4	-	-8.4	110.9
June	3.0	0.4	-	-7.2	111.5
July	2.9	0.4		-11.9	112.9
August	3.0	0.7			113.1
September	3.0	0.7			112.8
October	2.8				

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	104.5
1987	105.9	97.8	107.8	103.0	106.6
1988	108.8	102.8	111.1	104.0	103.7
1989	112.6	108.4	115.4	105.3	100.6
1990	116.5	107.1	120.6	109.3	105.5
1991	120.2	105.8	125.8	113.3	104.0
1992	123.1	104.0	130.3	115.8	107.9
1993	125.6	101.1	133.7	118.0	109.7
4th qtr.1993	2.1	-2.2	n.a.	0.0	111.3
1st qtr.1994	1.7	-1.5	n.a.		109.8
2nd qtr.1994	1.7	-0.1	n.a.		108.2
3rd qtr.1994	1.6		n.a.		107.6
November 1993	2.2	n.a.	-	n.a.	107.9
December	2.1	n.a.	2.2	n.a.	109.4
January 1994	1.9	n.a.	-	n.a.	109.6
February	1.8	n.a.	-	n.a.	107.8
March	1.5	n.a.	2.0	n.a.	108.0
April	1.7	n.a.	-	n.a.	107.6
May	1.8	n.a.	-	n.a.	108.6
June	1.6	n.a.	2.3	n.a.	108.4
July	1.7	n.a.	-	n.a.	109.7
August	1.7	n.a.	-	n.a.	109.9
September	1.6	n.a.		n.a.	108.7
October		n.a.		n.a.	

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	103.3
1987	111.0	103.2	111.6	105.6	105.1
1988	116.5	106.8	118.4	109.7	102.8
1989	124.2	113.1	125.6	112.3	105.4
1990	131.8	117.8	134.7	118.8	109.1
1991	140.3	121.7	147.9	131.3	108.3
1992	147.7	124.0	155.9	136.8	105.0
1993	153.9	128.7	161.2	139.4	89.4
4th qtr.1993	4.1	3.9	3.8	-1.4	90.9
1st qtr.1994	4.2	3.5	4.2		91.8
2nd qtr.1994	4.0	3.1	4.1		91.0
3rd qtr.1994	3.7				90.0
November 1993	4.2	3.9	3.9	n.a.	87.4
December	4.0	3.7	3.6	n.a.	88.6
January 1994	4.2	3.5	4.0	n.a.	87.0
February	4.2	3.6	4.3	n.a.	87.3
March	4.2	3.2	4.5	n.a.	87.0
April	4.1	3.0	4.6	n.a.	89.5
May	4.0	3.2	4.6	n.a.	90.0
June	3.7	3.2	3.0	n.a.	89.1
July	3.8	3.2		n.a.	88.4
August	3.7	3.5		n.a.	87.3
September	3.9			n.a.	87.2
October	3.8			n.a.	

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	104.1	95.7
1987	107.7	104.9	116.3	106.8	96.9
1988	113.0	108.7	126.2	108.5	104.4
1989	121.8	113.9	137.2	114.4	102.7
1990	133.3	121.0	150.1	122.7	105.0
1991	141.2	127.5	162.4	131.3	108.8
1992	146.4	131.5	173.1	133.9	105.9
1993	148.7	136.7	180.9	134.5	97.4
4th qtr.1993	1.5	3.9	3.9	1.4	97.3
1st qtr.1994	2.4	3.3	4.8	1.9	97.8
2nd qtr.1994	2.6	2.2	4.4	-0.1	98.2
3rd qtr.1994	2.3	2.2			98.8
November 1993	1.4	3.8	4.0	1.1	98.4
December	1.9	4.0	4.0	1.3	99.3
January 1994	2.5	3.7	4.8	1.7	101.1
February	2.4	3.4	4.4	1.8	99.6
March	2.3	2.8	5.3	2.3	99.1
April	2.6	2.2	4.7	0.6	98.5
May	2.6	2.1	4.3	0.6	98.5
June	2.6	2.1	4.3	-1.4	98.8
July	2.3	1.9	4.2	-0.8	97.7
August	2.4	2.0	4.5	-0.3	97.6
September	2.2	2.4			97.7

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

NEWS: WORLD TRADE

CONTRACTS AND VENTURES

VW launches Taiwan plant

Volkswagen, the German car maker, yesterday launched a new production facility in Taiwan. By 1996 the assembly plant will reach capacity of 30,000 light commercial vehicles per year, of which 20,000 will be sold in Taiwan and the rest exported to south-east Asia and, later, China.

The new company, Chinchun Motor, is a joint venture with Chinfon Global, a Taiwanese industrial group with interests in manufacturing, construction and banking. Volkswagen will provide technology and expertise and Chinfon the facilities, management and administration. The products will be marketed jointly. Chinfon holds 66.6 per cent of the paid-in capital of DM190m ($127.5m) and Volkswagen holds the rest.

The Taiwan site may be expanded to produce 150,000 cars per year depending on cross-strait political developments and China's smooth accession to the General Agreement on Tariffs and Trade. It is hoped that eventually more sophisticated parts made in Taiwan may be exported to supply Volkswagen's plants in China and completed engines made in China will be brought to Taiwan to install in the Taiwan-made vehicles. Taiwan requires that 50 per cent of parts be locally sourced. Chinfon has made Honda motorcycles and cars in Taiwan since the 1950s under subsidiary Sanyang Industry. *Laura Tyson, Taipei*

VW and Czech government declare peace, Page 17

■ Thomson-CSF said its Thomson-CSF Belgium Electronics subsidiary has won a 35 per cent share of a $107m contract to modernise radars for F-16 fighter jets in service with four European air forces. Its share of the total contract, which was awarded to Westinghouse Electric, is valued at FFr160m ($31.25m). The F-16 is flown by Belgium, Denmark, Norway and the Netherlands, and was built by Lockheed of the US. *Reuter, Paris*

■ GE Power Systems, part of General Electric of the US, has signed a contract worth nearly $500m for the 2,000MW expansion of a Korea Electric Power Corporation combined-cycle power plant. GE will be the prime contractor for blocks three and four of the Seoinchon plant south-west of Seoul. *Andrew Baxter, London*

■ Swiss-Swedish engineering group ABB Asea Brown Boveri has been asked to lead a SKr1.5bn ($203.5m) gasoil plant project for privately-owned OK Petroleum. OKP said the project was for environmental improvements at OKP's refinery in Gothenburg on the west coast of Sweden. *Reuter, Stockholm*

■ ABB Power Generation and Pyropower Corporation of California have won a $363m contract to modernise two 200MW generators at the Turow power station in south-west Poland. The consortium also has the option to work on four more generators at Turow. Most of the equipment for the first stage of the project will be locally produced in plants like ABB Zamech bought by the Swiss-Swedish engineering company in 1990 and Fakop in Sosnowiec, recently bought by Pyropower.

Turow, which is fuelled with brown coal, is in the middle of the "black triangle", one of central Europe's most polluted areas, between Poland, the Czech Republic and the former east Germany. The new generators and boilers will reduce emissions to European Union standards and increase fuel efficiency. *Christopher Bobinski, Warsaw*

■ Ansaldo, part of Italy's state-controlled Finmeccanica engineering group, has won a L115bn ($74.7m) order for rehabilitation, modernisation and maintenance of the Al Ain power plant in the United Arab Emirates, following an international tender. Earlier this year, the same subsidiary, Ansaldo Energia, was awarded another L40bn contract for maintenance work on a different UAE power station. *Andrew Hill, Milan*

■ GE Power Systems, a unit of General Electric of the US, has won a $164m contract to furnish and build a 300MW addition to Riyadh Power Plant 8 for Saudi Consolidated Electric. The expansion is expected to begin operations next summer. *Reuter, New York*

■ TransAlta Energy, the Alberta electrical power utility, will build a $120m 250MW coal-fired power plant in Fujian Province, south-east China for Fujian Electric Power Bureau. Construction is due to start next year and the first two generating units will be operating by late 1997. TransAlta will share ownership with the bureau and Great China International. *Robert Gibbens, Montreal*

■ Cie Générale de Bâtiment et de Construction (CBC) has won a FFr374m ($73m) contract to build an office and shopping building in Prague. The turnkey project was agreed with Myslbek, a joint venture company owned 80 per cent by the Caisse des Dépôts et Consignations and 20 per cent by Prague. *Reuter, Paris*

■ Conrail of the US will build 45 General Motors Electro-Motive Division SD601 locomotives at its Juniata Locomotive Shop, the first diesel-electric locomotives to be built at the Altoona facility. The new units are part of a 90-unit order placed earlier this year, Conrail said. *Reuter, Philadelphia*

Boeing warns of battle for clients

By Gerard Baker in Tokyo

Demand for air travel in Asia will be the motor of growth for the world's airlines and aircraft makers in the next two decades, the president of Boeing, Mr Philip Condit, said yesterday.

However, excess capacity among manufacturers will produce an increasingly difficult competitive environment, despite the rapid growth in demand for new aircraft.

Mr Condit told an audience of Japanese businessmen that Boeing expected world air travel to triple in the next 10 years. More than a fifth of that growth was forecast within Asia, with a further 40 per cent linking Asia with Europe and North America. In China alone, rapid economic expansion was expected to increase the number of airline trips per person by 20 times within 15 years.

That rate of growth would mean that by 2015 the country would have become the third largest market for commercial aircraft after the US and Japan.

The global travel surge would translate into far higher demand for aircraft, with an extra 700-800 commercial jets needed in the next 20 years, he said. But since aircraft makers were left with the capacity geared for earlier commercial booms and military demand of cold war proportions, "this will be a market that has excess capacity until well into the next century".

Boeing could single-handedly meet the extra demand for aircraft out of its own expected capacity, he said. The result would be "intense competition and intense pressure on prices" for manufacturers and a "difficult environment" for airlines.

Mr Condit also said Boeing was studying plans to build a small 80-100-seat passenger airliner to replace the company's 737 and rival McDonnell Douglas's DC-9 models.

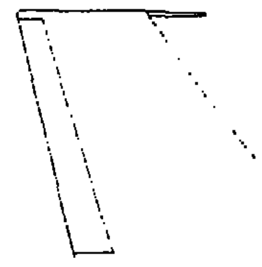
The company was also considering "a very large commercial transport project" with "huge costs and huge risks", but said it would have to be at least 20 per cent cheaper than the 747s it would replace to be commercially feasible.

Air traffic growth rates

Passenger/km: annual average growth (%)
ICAO world regions, all services

	1982-1991	1992-2001	2002-2011
Europe (excludes CIS)	4.5	5.3	4.6
North America	5.7	4.6	4.0
Latin America	3.6	6.0	5.4
Africa	2.4	4.5	4.6
Middle East	4.2	7.0	5.2
Asia and Pacific	6.9	8.6	7.0
China	17.8	16.7	10.1
World total	**5.4**	**5.8**	**5.1**

Source: Airbus Industrie



China signs contract for 34 McDonnell Douglas airliners

By Our Foreign Staff

China has signed a contract for 34 V2500-powered McDonnell Douglas MD-90 airliners. The engines are produced by International Aero Engines, of which Rolls-Royce is a principal shareholder.

The deal, which was signed in Washington, represents an increase of 14 aircraft over the previously announced number and the value of new business for Rolls-Royce is about $50m. The first MD-90 is scheduled for delivery in early 1996.

Half the aircraft will be manufactured in China with US-supplied parts.

Mr Li Lan Oing, vice-premier of China and Mr Ron Brown, US commerce secretary, both attended the contract signing. The V2500 order book now stands at 1,525 engines worth more than $8.5bn.

The V2500 has been ordered on the Airbus A320 and A321 and the MD-90-30 as well as being available for the A319 and MD-90-50. Airbus Industrie, the European aircraft manufacturing consortium, has been taking steps to strengthen its presence in the fast growing Chinese market and last week announced the establishment of a flight crew training centre in Beijing.

V2500 engines are manufactured by Rolls-Royce in the UK and by Pratt & Whitney in the US, the other principal shareholder. Other partners in International Aero Engines are MTU and FiatAvio in Europe and JAEC in Japan.

The deal with China was signed last Friday and is worth a total of $1.6bn.

Rising volume in North America freight sector

The air freight sector in North America is experiencing one of the best pre-Christmas peaks in recent memory, with most airlines or cargo agents reporting rising volumes to and from North America, **Reuter reports from Toronto.**

"There's just an explosion of world trade occurring, and cargo is reaching a new plateau," according to Mr Mike Canney, a senior cargo manager at Singapore Airlines in Los Angeles.

The recovery has been mounting on most major North Atlantic and Pacific routes, eastbound and westbound. Some analysts attribute the rise to the paradox that North American economies are strong while their currencies are weak, stimulating imports and exports. Others say world trade reforms and the North American Free Trade Agreement have lowered trade barriers.

The strongest surge this autumn is in traffic from Europe and, as yet, no capacity squeeze on the Pacific. Pacific traffic has been growing rapidly in the last two years, but capacity growth has tended to keep pace.

Autumn is the peak period for air cargo in North America as stores stock up for Christmas while airlines scale back flying schedules from the summer passenger travel peak.

The industry has been full of talk of a capacity crunch, but airlines were reluctant to raise capacity, especially using freighters, to avoid being stuck with the cost of flying empty.

"The capacity that's there is basically the same as last year's peak," said Mr Jack Veracoechea, the New York based vice-president of national accounts for British Airways World Cargo.

He said BA has not experienced significant backlogs in the US but demand is very strong for all US routes.

Speed up China talks says Brittan

By Tony Walker in Beijing

Sir Leon Brittan, the European Commissioner for External Trade Relations, yesterday warned that negotiations on China's re-entry to the General Agreement on Tariffs and Trade were in danger of "grinding to a halt" and called for flexibility on terms for China's accession.

"We have insisted that China should show its intention to pursue reform within the World Trade Organisation [the successor organisation to Gatt] by making a down-payment in the form of progress now toward open markets," Sir Leon said.

"But we have also accepted that not all changes can come immediately and we have argued with our Gatt colleagues that timetabled commitments to change ... are a more realistic basis for progress than expecting full reform overnight."

Sir Leon's comments, to a meeting of the International Business Leaders' Advisory Council, reflect growing concern that time is running out on negotiations for China's Gatt entry if it is to become a founder-member of the WTO at the beginning of next year.

This has prompted thoughts of deferring China's entry to the WTOuntil later next year. Sir Leon appeared to allude to this in his Shanghai speech: "With flexibility on all sides, we are still confident that the negotiations for an early Chinese entry into Gatt/WTO can succeed. But the momentum must not be lost."

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially-supported export credits for November 15 to December 14 1994 (October 15 1993 – November 14 1994 in brackets).

D-Mark	8.06	(8.09)
Ecu	8.93	(8.73)
French franc	8.84	(8.70)
Guilder		
up to 5 years	8.20	(8.10)
5 to 8.5 years	8.50	(8.40)
more than 8.5 years	8.85	(8.60)
Italian lira	11.32	(11.38)
Yen	4.70	(4.70)
Peseta	11.90	(11.97)
Sterling	9.73	(9.79)
Swiss franc	6.55	(6.51)
US dollar for credits		
up to 5 years	8.04	(7.69)
5 to 8.5 years	8.40	(8.08)
more than 8.5 years	8.58	(8.28)

These rates are published monthly by the Financial Times, normally in the middle of the month.

A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.

SDR-based rates of interest are the same for all currencies. For the period from July 15 to January 14 1995, the SDR-based rate will be 7.35 per cent. It replaces the previous rate of 5.95 per cent. The SDR-based rate will again change on January 15 1995.

THE
DAVID THOMAS PRIZE

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break to explore a theme in the fields of industrial policy, third world development or the environment.

The theme for the 1995 prize, worth not less than £3,000, is: DOES FREE TRADE THREATEN THE ENVIRONMENT?

Applicants, aged under 35, of any nationality, should submit up to 1000 words in English on this subject, together with a brief c.v. and a proposal outlining how the award would be used to explore this theme further.

The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

CLOSING DATE JANUARY 6 1995

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Indonesian union chief jailed for three years

By Manuela Saragosa in Jakarta

The leader of Indonesian's largest independent trade union was sentenced to three years' imprisonment yesterday by a court in the northern Sumatran town of Medan, where workers' demonstrations led to riots in April.

Mr Muchtar Pakpahan was sentenced for allegedly inciting the Medan workers to riot by encouraging them to call for higher wages. Prosecutors had demanded that the leader of the Jakarta-based independent Indonesian Prosperous Labour Union (SBSI) should serve a four-year jail sentence.

The sentence comes a week before leaders from the Asia Pacific region, including US President Bill Clinton, are due to meet at the Indonesian presidential palace in Bogor, south of Jakarta, for the Asia Pacific Economic Co-operation summit. Mr Clinton is expected to raise the issue of workers' rights with President Suharto and the US embassy in Jakarta said yesterday that Washington regretted the sentence.

The trial of Mr Pakpahan, who said he would appeal, has drawn strong criticism from the International Confederation of Free Trade Unions and non-governmental organisations which repeatedly asked the Indonesian government to drop the charges.

President Suharto and Mr Abdul Latief, manpower minister, insist the trial is not an attack on workers' rights and that Mr Pakpahan was arrested because of the activities which occurred during the rioting.

Mr Pakpahan denied he was involved in the Medan riots, which lasted several days, pointing out that he was in the central Javanese town of Semarang at the time.

The military blames the SBSI for causing the riots, which left one ethnic Chinese businessman dead and property damaged. Although other leading members of the SBSI say they called for workers to strike, they say they did not incite the rioting.

Mr Pakpahan's trial, which lasted nearly two months, was fraught with difficulties and his 19 defence lawyers walked out repeatedly during court hearings in protest at the restrictions imposed by the court on allowing testimony for their case.

The trial was delayed once after Mr Pakpahan collapsed during an early hearing in September. "He was under so much pressure and there were so many restrictions, so he was not in good condition," said an SBSI official.

Mr V. Napipulah, the chief judge, told Mr Pakpahan: "You have shown during the trial that you do not appreciate this court and have been inclined to denigrate the importance of the government apparatus." He added: "You have also tried to complicate the process of this court during the trial."

The US has twice delayed a decision on whether to renew Indonesia's status under the Generalised System of Preferences which is linked to progress made in workers' rights.

Washington's main concerns in renewing Indonesia's trade privileges involve the right of Indonesian workers to form an independent trade union and reducing military interference in labour issues. Indonesia has two trade union groupings but only one, run by state bureaucrats, is recognised by the government.

Bank lottery lures Japan's savers

By Gerard Baker in Tokyo

Cynics who have come to regard opening a Japanese bank account as tantamount to buying a ticket in a lottery have had their suspicions confirmed.

Johnan Shinkin Bank, the country's largest credit association, yesterday launched a deposit account that includes eligibility for a raffle with cash prizes of up to Y50,000 (£317).

The one-year "Super Dream" account, the first of its kind, can be opened with a minimum deposit of Y100,000 and carries an interest rate of 2.1 per cent per year, in line with one-year deposit account rates at other leading banks.

But every six months, account holders will be entered into a kind of financial tombola, with winners receiving between Y3,000 and Y50,000 when their deposits mature. More than 4,000 prizes will be won every half-year and bank officials said the structure of the lottery would give customers a 3.38 per cent chance of winning something.

Johnan Shinkin's scheme is the latest in a proliferating series of special attractions offered by banks to lure customers in a more challenging, less regulated competitive environment. A key element in the recent financial deregulation has been the liberalisation of deposit interest rates.

The process began a decade ago but was completed only last month, when all remaining controls on banks' deposit rates were lifted.

The reforms leave banks in the unfamiliar position of having to compete energetically with each other for depositors. Some novel schemes have been dreamed up to entice the increasingly choosy Japanese saver.

Among the more successful post-liberalisation campaigns has been one by a regional bank that fixed its interest rate to the batting average of the local baseball star.

More predictably, there has been a rapid growth in the number of accounts carrying with them the sort of cute freebies for which the Japanese have a penchant.

The frontiers of consumer choice in this field have recently been extended to include giveaway toys depicting everything from Walt Disney's creations to the increasingly popular "Dinky the Dinosaur" cartoon character.

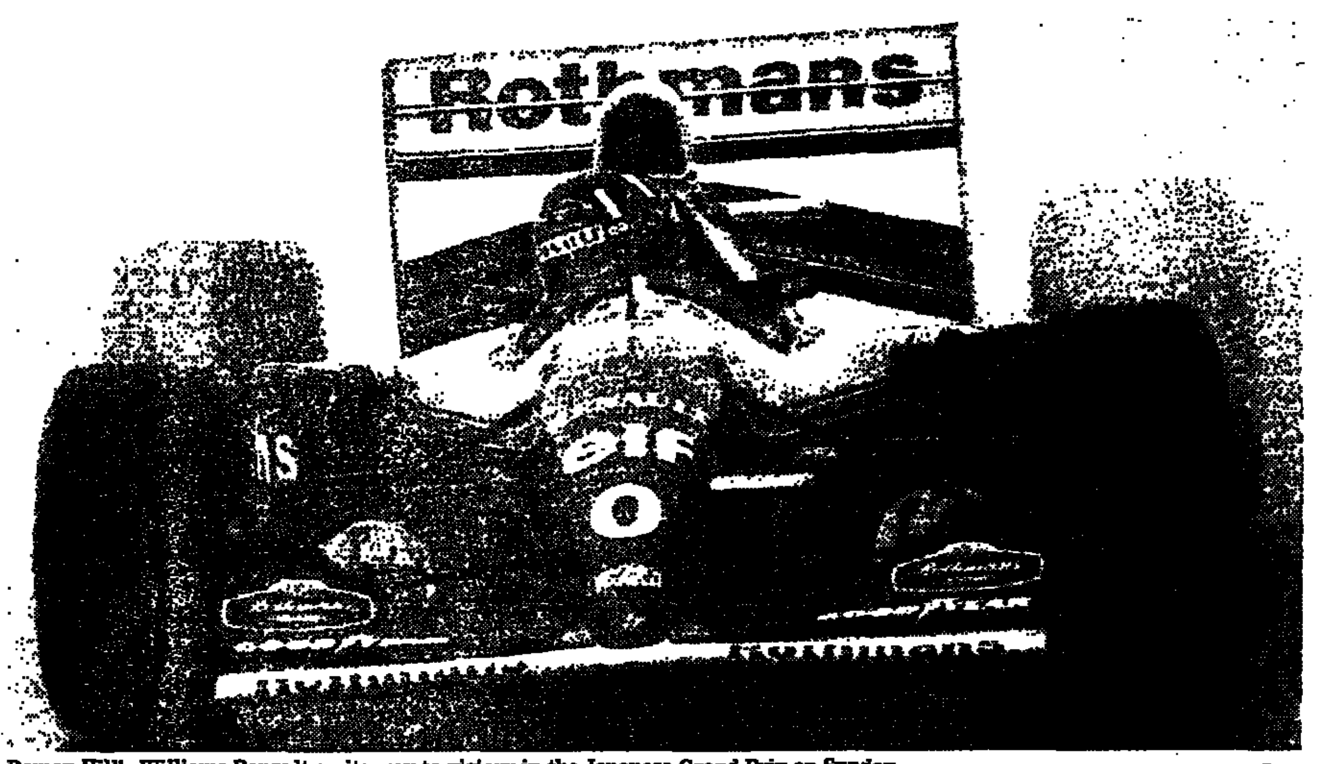
But the more serious competition centres on the pecuniary advantage that banks are now able to offer their customers. Since last month's changes, a small but significant differential has opened up between bank deposit rates.

The gap seems set set to grow wider, a development that will threaten the already anaemic profitability of Japan's banks as demand for lending remains sluggish, and they continue to struggle with a heavy burden of non-performing loans.

Johnan Shinkin estimates that the Super Dream account will cost the bank about the same as an extra 0.2 percentage point added to interest on a one-year deposit.

An official acknowledged that the implications for the company's earnings were troubling.

"The account will ensure that the benefits of liberalisation are passed on to the customer," he said, "even though it means we will have to reduce profits to a minimum."



Damon Hill's Williams Renault on its way to victory in the Japanese Grand Prix on Sunday Reuter

Japan, US start joint exercise

By William Dawkins in Tokyo

Japan and the US will today begin their largest joint military exercise, a sign of their wish to keep trade tensions separate from strategic links.

More than 26,000 men, roughly half from each side, will take part in the exercise, called Keen Edge 1995, over the next five days in northern Japan. The aim of the exercise, part of a series started in 1986, is to defend Japan from an imaginary invasion by sea and air.

This latest exercise, planned last year, coincides with a visit yesterday by Mr Walter Slocombe, US under-secretary of defence, designed to bolster US-Japan security co-operation.

After a meeting with Mr Yohei Kono, the foreign minister, Mr Slocombe called for more co-operation between the two countries in international peacekeeping and the prevention of the spread of weapons of mass destruction.

The military manoeuvres are the latest reminder of the sharp policy switch by Mr Tomiichi Murayama, Japan's socialist prime minister.

Mr Murayama used to oppose the US-Japan defence treaty and Japan's right to maintain military forces, but soon dropped those policies after coming to power in June, in order to fall into line with his conservative Liberal Democratic party coalition partners.

Rakhmonov to become first Tajikistan president

Mr Imamali Rakhmonov, Tajikistan's parliamentary chairman and acting head of state, won the central Asian republic's first presidential election, taking 60 per cent of the vote, according to official preliminary results announced yesterday, Reuter reports from Dushanbe. His opponent, Mr Abdumalik Abdulajanov, a former prime minister and at present Tajikistan's ambassador to Moscow, won 35 per cent in Sunday's contest.

"Despite pessimistic forecasts, the referendum for a new constitution and election took place," Mr Kadriddin Giosov, commission chairman, said. "We did our best to ensure the election was free and democratic." Another official said more than 90 per cent of the 2.6m electorate had voted for a new constitution which among other things creates a presidential system.

Mr Abdulajanov's team alleged on Sunday there had been cases of ballot boxes being fraudulently stuffed with votes for Mr Rakhmonov, and that some other votes had been tampered with. The electoral commission and observers from the Commonwealth of Independent States said they had seen no human rights abuses during the vote.

"My opinion... is that from the legal point of view, the election went well," said Mr Artur Zurimbovsky of the CIS secretariat. The Conference on Security and Co-operation in Europe (CSCE) and the UN declined to send monitors. Diplomats said the CSCE was concerned that the government's real opposition, an alliance of Islamic groups and liberals, did not take part in the election.

Many opposition leaders are in exile in Afghanistan, from where their fighters have launched cross-border raids since losing a civil war in late 1992. Some analysts said that, given the opposition boycott, the election would not help resolve deep problems in Tajikistan, where clan loyalty is seen as more important than ideology. "They have the same guy [again] and I have my doubts that the opposition will accept this," one diplomat said yesterday.

Mr Rakhmonov, a former state farm director, comes from the southern-based Kulyabi clan, which was at the leading edge of the battle to oust the rebels. Mr Abdulajanov, from the industrialised north, was seen by many diplomats and analysts as better placed to deal with the exiled opposition. He served as premier in an opposition-led government but kept his post under the new administration.

Observer, Page 17

Formula One racing loses allure

By Emiko Terazono in Tokyo

Mr Luciano Benetton, hosting a reception in Tokyo yesterday, shrugged off his team's defeat in the Japanese Grand Prix at the hands of Damon Hill in a Williams-Renault. But even though 155,000 motor racing enthusiasts sat in the rain on Sunday watching the duel with Benetton-Ford's Michael Schumacher, the allure of Formula One racing in Japan seems to be on the wane.

Until last year, eager fans snapped up tickets at triple the normal price of Y31,000 (£196). This year, a 30 per cent discount has failed to attract buyers. Television audience ratings have also steadily fallen, hitting Fuji Television Network, which acquired F-1 broadcasting rights in 1987, while two out of five car racing magazines have closed.

In addition to the declining benefits of advertising due to shrinking audiences, corporate sponsorship has been hit by the economic downturn, and deteriorating earnings have dulled the appeal of having the fastest-moving logo on earth.

The number of sponsoring companies has fallen to a fifth of the 50 in 1991. Footwork, a parcel delivering company which pulled out last year, said it thought the role of Grands Prix role as a marketing tool was over.

Industry analysts started to detect a peaking in F-1 popularity after the retirement in 1991 of Satoru Nakajima, the leading Japanese driver. Honda Motor, whose engines won the constructor's championship for six consecutive years from 1986 to 1991, announced its withdrawal in 1992. The final blow appears to have been the death earlier this year of Ayrton Senna, the Brazilian world champion.

So will Japanese fans return if the economy recovers and the glitz in F-1 racing returns? "The Japanese get hot easily but they also cool just as fast," says Mr Mutsumi Kumagai of Auto Sports, one of the remaining car racing magazines. "Maybe Japan needs a second Senna to to attract a new generation of supporters."

China explores the merits of regional economic links

Tony Walker reports on the background to President Jiang's four-nation South-east Asian tour

Jiang: "new diplomatic drive"

When China's President Jiang Zemin leaves today for visits to Singapore, Malaysia, Indonesia – where he is to attend the Asia Pacific Economic Co-operation forum – and Vietnam, he will be engaging in what Chinese *media aree describing as a "new* diplomatic drive".

This probably overstates the case, but there is also no doubt that Mr Jiang's mission is one of his more important forays abroad. His meeting with President Bill Clinton during the Apec summit will be the centrepiece of his four-nation tour.

The two last met in Seattle at the first Apec summit a year ago under less auspicious circumstances. Then human rights issues predominated. The US had not severed the link between renewal of China's Most Favoured Nation trading status and human rights. With that irritant removed it should be possible for leaders of the two Pacific powers to talk more constructively about such issues as the future of Apec itself and its evolution into a trade liberalisation vehicle which depends on active Chinese involvement.

But any concessions on that score are likely to come at a price. In the lead-up to Apec, Chinese officials have made it clear that Beijing would look more favourably on an Apec free trade zone proposal, however nebulous that proposal may be, if lingering argument over its application to re-join the General Agreement on Tariffs and Trade were resolved.

As the Apec summit draws nearer Chinese officials are making the link between the two issues even more explicit. In a weekend newspaper interview Mr Long Yongtu, an assistant minister in the foreign trade ministry, asked: "Is China's *Gatt accession good for trade liberalisation* advocated by the Asia-Pacific Economic Co-operation forum?"

This is an argument that Mr Clinton is likely to hear directly from Mr Jiang. China, in seeking Gatt entry, is playing the Apec card, knowing that influential Apec members, such as Australia, wish to secure broad endorsement for the implementation by 2020 of the proposed Asia-Pacific Free Trade Zone proposal.

Mr Jiang is likely to stop short, however, of backing a timetable except in the vaguest possible terms. This reflects Beijing's caution about committing itself to regional institutional arrangements unless it can be sure that these will *work to its advantage. China's* persistent fear is that such forums could be used to assert pressure on issues such as human rights and trade liberalisation.

Chinese foreign policy research institutes, including the Academy of Social Sciences, recently advised the government to join efforts to broaden Apec, but to avoid specific commitments to a free trade zone timetable. Professor Zhang Yunling, director the academy's Asia Pacific Studies Institute, and one of the authors of the study, said that while China saw growing regional co-operation as an "irreversible trend", it was not yet clear whether Apec was the most appropriate framework for such a process.

"China is improving gradually its *understanding* of the region. It has no choice but actively to participate, but at the same time it has to find ways not to harm itself," he says.

Mr Jiang's visits to Malaysia and Singapore will be largely ceremonial, although in Kuala Lumpur China's president will feel obliged to repeat Beijing's endorsement of a Malaysian proposal for an East Asia Economic Caucus. Beijing has indicated at best a tepid enthusiasm for the EAEC.

Mr Jiang's visit to Vietnam on the last stop of his Asian tour may require some nimble diplomatic footwork, but Prof Zhang does not expect the continuing dispute over territory in the South China Sea to mar the visit.

He said that the two sides had no interest at this stage in allowing relations to deteriorate. He noted that cross-border trade was flourishing and that both countries were intent on developing their economies after barren years. This dictated a stable regional environment.

At a personal level, Mr Jiang's extensive tour also assumes importance. *He will be hoping that his* appearance on a world stage at the Apec forum will bolster his stocks at home in this transitional phase to a new generation of Chinese leaders.

INTERNATIONAL NEWS DIGEST

India opens up directorships

The Indian finance ministry will allow foreigners, including Indians residing outside the country, to become directors of joint venture stockbroking companies, it said yesterday. The ministry said clauses of the Securities Contracts Rules, 1957, would be amended "to allow joint-venture stock broking companies to have non-Indian citizens on their boards of directors". "The change is a further step in the direction of granting more flexibility for foreign companies in the stock-broking business in India," said Mr James Winterbotham, president of Credit Capital Finance Corporation, a stockbroking firm in joint venture with Lazards. *Shiraz Sidhva, New Delhi*

BHP currency sham alleged

Mr Brian Loton, chairman of Broken Hill Proprietary, and other directors of the large Australian resources group, were yesterday alleged to have had some knowledge of sham foreign exchange transactions in the late 1980s involving Elders IXL, the brewing and agriproducts company now known as Foster's Brewing Group. The allegation was contained in a statement tendered to the Melbourne Magistrates Court by Mr Ken Jarrett, a former Elders executive, during a long-running committal hearing which has followed the filing of conspiracy and theft charges against Mr John Elliott, former Elders chief, and other one-time Elders executives. Mr Jarrett agreed to give evidence against his former boss earlier this year. He has already received a six-month jail sentence after agreeing to co-operate. *Nikki Tait, Sydney*

Former ANC fighters sacked

Mr Joe Modise (left), South Africa's defence minister, announced yesterday that over 2,000 former members of Umkhonto we Sizwe, the African National Congress's armed wing, had been dismissed from the South African National Defence Force for failing to report to duty despite numerous warnings from the government. The decision marks a new hard line being taken by the ANC-led government on dissent by former guerrillas who have been complaining about harsh discipline and poor living conditions as they are assimilated into the SANDF. About 25,000 former Umkhonto members, as well as several thousand others from the former homeland armies and the armed wing of the Pan Africanist Congress, are due to join the formerly white-dominated South African army this year. *Mark Suzman, Johannesburg*

UK official to visit Burma

Britain said yesterday a senior Foreign Office official would arrive in Burma today for talks with the ruling military government. A Foreign Office spokesman said the visit, the first by a senior British official since the Burmese elections of 1990, accorded with the European Union policy of "critical dialogue" with the Rangoon government. The visit by Mr David Dain, an assistant under-secretary of state, followed some "potentially encouraging" signals from the government, including meetings with the detained opposition leader, Nobel Peace Prize laureate Aung San Suu Kyi. *Reuter, London*

Solomon Islands PM elected

Mr Solomon Mamaloni was yesterday elected prime minister of the Solomon Islands, following the resignation of Mr Francis Billy Hilly, the previous incumbent, last week. In his swearing-in speech, Mr Mamaloni hinted the new government would review logging policy, and warned that the Pacific nation's economic condition was "precarious". Logging in the Solomons has been the subject of international attention, with criticism levelled at some of the foreign companies operating there. Mr Mamaloni, 1982-84 and 1989-93 prime minister, is a popular figure in the Solomon Islands. But he can be unpredictable and in the past has fallen out with other governments, according to a diplomat in Honiara. *Nikki Tait, Sydney*

■ Indonesia's state budget is targeted to grow 10-15 per cent in the 1995-96 fiscal year, Mr M. Muhammad, finance minister, said yesterday. Indonesia's budget in the current fiscal year is $32bn (£20bn), up 11.1 per cent on last year. *Reuter, Jakarta*

■ Taiwan's trade surplus rose 61.2 per cent from a year earlier to $1.06bn (£662m) in October, the Finance Ministry said. *Reuter, Taipei*

Israeli economy shows overheating signs

Fast growth may be in jeopardy, the central bank governor tells **Julian Ozanne**

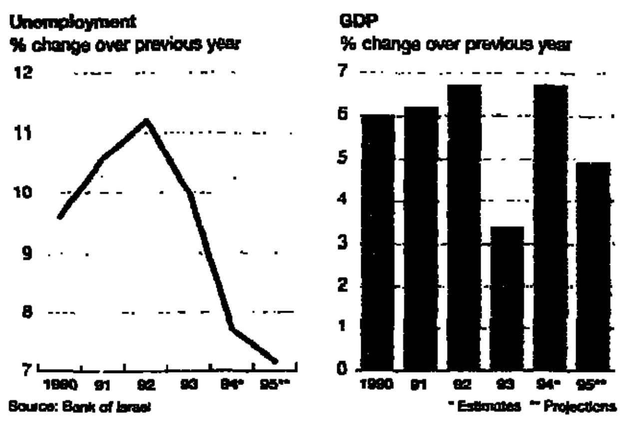
Israel's economy is growing faster than expected but is showing signs of over-heating with rising inflation, high wage agreements in the public sector and an increase in private consumption.

Mr Jacob Frenkel, Bank of Israel governor, warned in an interview yesterday that the government faced a serious policy challenge in 1995 to ensure growth would be sustainable. Without a reduction in labour costs, government expenditure and the public sector wage bill, high medium-term growth of 5 per cent a year could be in jeopardy.

"I think we have just the right conditions to justify a vigorous effort to stabilise," he said. "Our economy is growing quickly, there are clear signs of over-heating reflected both in the rapid rise of consumption and in a growing current account deficit. Restrictive macro-economic policies are warranted on the fiscal and monetary front."

Mr Frenkel said the economy would grow 6.7 per cent this year, well above the forecast of 5.3 per cent and last year's 3.4 per cent. The growth he said was of a "healthy variety", driven principally by private sector activity, expected to grow 7.7 per cent, and a 16.3 per cent increase in non-housing investment.

Israel: in danger of doing too well



Source: Bank of Israel
* Estimates ** Projections

However a significant part of 1994 economic growth reflects a 10 per cent increase in private consumption fuelled by civilian imports, which will increase by 13 per cent. The trade deficit for 1994 is expected to widen from $6bn (£3.6bn) to $8.3bn, causing the current account deficit to grow from $1.4bn to $3bn.

"If you ask me, based on these figures, whether economic growth is sustainable the answer is no because private sector consumption has grown at a rate which exceeds the rate of income growth," Mr Frenkel said.

Private consumption in 1994 has been stimulated by growing perceptions of economic growth, the rapid fall in unemployment this year from 10 per cent to 7.2 per cent and public sector wage increases of 10 per cent in real terms.

Mr Frenkel said the real danger was the spill-over of public sector wage rises into the private sector. "If this happens it will affect profitability and might have adverse consequences for investment and growth and will also make the fight against inflation so much more difficult."

Economists at the central bank are urging the government to reduce private sector labour costs, slash its wage bill - which has risen 6 per cent this year - and curb expenditure to ensure a continuing decrease of the budget deficit, which is expected to fall to 2 per cent of gross domestic product this year.

The bank is advocating a 3 per cent cut in the public workforce, which has grown 5.8 per cent this year from 575,500 to 608,600 and says this could be achieved by a hiring freeze.

Government action on public expenditure will be critical to fighting inflation, now at 14 per cent. While the central bank has increased interest rates 6.5 percentage points since last year, many economists believe it should have acted faster. Mr Ptachia Bar-Shavit, economist at Bank Hapoalim, said the central bank mistook the inflation trend in the summer of 1993, which showed a seasonal reduction, and reacted slowly.

However, the central bank had to fight for tight monetary policy against criticism from the finance ministry and manufacturers. It also says the main contributor to inflation was housing costs, which are expected to rise 30 per cent this year. Government measures such as increased sale of public land and re-designating land uses from agriculture to housing have yet to be effective.

Mr Bar-Shavit said the government had not done enough to solve the housing crisis and said the government should introduce a buy-back policy to ensure builders operated at full capacity. He said housing costs would only come down significantly when builders produced 50,000 new units a year instead of the less than 40,000 units started this year.

The bank, however, says interest rate rises have contained the acceleration of inflation. Together with the government, it has decided on an inflation target of 8-11 per cent for 1995.

"Up to now we have contained the acceleration and now we are in the phase of a gradual reduction towards the inflation target," said Mr Frenkel.

> Economists say the achievements of 1994 should not be negated

Economists say the achievements of 1994 should not be negated. Mr Bar-Shavit said per capita income would grow 4.4 per cent, greater than the OECD industrialised countries. Reduction in unemployment, given continuing absorption of about 70,000 new immigrants annually, was also an impressive achievement he said.

Export growth of 8 per cent this year partly reflects benefits from the Middle East peace process. Exports of goods to Asia, excluding Japan, are set to rise 25-30 per cent this year from $1.7bn in 1993.

Sony chooses UK design base for Europe

By Ian Hamilton Fazey, Northern Correspondent

Sony Electronic Publishing is to open a new base in Liverpool as its European centre for the design and development of computer and video games creating 259 jobs.

It is forecasting worldwide sales for its products of more than $300m (£182.90m) in 1995-96.

Sony acquired its Merseyside base last year when it bought Psygnosis, a Liverpool games software house, for an undisclosed sum. The new jobs more than double the 235 that came with Psygnosis. Other Sony jobs may be moved north from the south-east .

The company's main product – the *Lemmings* computer game – has sold several million units worldwide. Other games include *Shadow of the Beast*, *Ecstatica*, *Novastorm* and *Mickey Mouse*.

The company will occupy a building in Wavertree Technology Park which has been empty for more than a year. Sony said the building's availability for long leasing was crucial to its choice of the UK.

Sony is also negotiating to expand on adjacent land. Mr Ian Hetherington, joint managing director, said: "This is an emerging technology and must be the largest growth sector in the world at the moment. If we can pull some of that into Sony – and we can – 259 new jobs will only be the tip of the iceberg".

The new development was fought over by inward investment agencies in France, Ireland, Germany and the Netherlands.

But in industrial development terms, government help has been small compared with the £58m which helped entice Samsung to the north-east last month. The site already had £4.3m of derelict grant to help the development.

Of new money, £1.75m is regional selective assistance from the Department of Trade and Industry, almost matched with £1.7m from the European Union. A further £625,000 will come from Merseyside Training and Enterprise Council.

Merseyside scored over other European locations partly because of north-west England's rich educational infrastructure, and its prospect of Objective One funds from the EU to help expansion. This helped overcome disadvantages noted by Sony, particularly poor motorway links into the Liverpool city centre.

Mr Michael Heseltine, then environment secretary, was the driving force behind Wavertree Technology Park – a joint venture to reclaim 60 acres of disused railway sidings by government, English Estates, Plessey and Liverpool City Council in the aftermath of the 1981 Toxteth riots, which took place about a mile away.

Air goes out of maker of record-setting balloons

By Jim Kelly, Accountancy Correspondent

The UK company that made the hot air balloons which hold the records for the highest and furthest journeys ever made has come down to earth with a bump.

Airbourne Group, which also made Richard Branson's balloon for his much-publicised transatlantic venture, has gone into receivership after spending £2.5m on airship development. But the receivers, Touche Ross, are confident it can fly again. At least six hopeful buyers have so far contacted them and there are "stacks of orders" for its core products – hot air balloons, barrage balloons and thermal defence targets.

Airbourne, and its trading companies which include Airborne Industries and Thunder and Colt, is responsible for 30 per cent of the world's hot air balloon market.

Mr Andrew Peters, joint administrator, said the group had an annual turnover of £10m, and there was a good chance of a sale as a going concern.

Development into airships had caused the problems, he said. The craft, used most often for advertising, had not found a market although the only one still in stock is in the process of being sold to a South African buyer for £300,000.

Other problems had included a loss making American venture and £250,000 of legal and other expenses incurred in defending court claims.

The company's balloons hold the world altitude record at 64,997 feet and the world distance record at 7,672 kilometers. Both were set in 1988.

Channel tunnel shuttle delay

By Charles Batchelor, Transport Correspondent

A full Channel tunnel passenger service for drivers and their cars will not start before the end of November or early December, at least two weeks later than Eurotunnel's most optimistic forecast.

The company which operates the Channel tunnel shuttle services had hoped to start turn-up-and-go passenger shuttles from November 15 but this early deadline will not be met, it said yesterday.

Eurotunnel will this week apply to the Franco-British intergovernmental commission in charge of safety for an operating certificate to fun full commercial passenger services. It will take two to three weeks for the commission to respond.

Eurotunnel said there was no single reason for the delay but it had taken longer to establish the sufficiently frequent and reliable services necessary to apply for the certificate.

The delayed launch of passenger shuttles between Folkestone and Calais will lead to a further reduction in Eurotunnel's revenues this year. It announced last month that the slow start up of services would reduce revenues to just one quarter of the £137m forecast in May.

Eurotunnel is currently running an "overture" service for shareholders, people in the travel trade, journalists and its bankers to introduce a wider public to the shuttles. This requires an advanced booking and in many cases payment of £30 to cover administration costs.

It plans to carry 60,000 passengers in 20,000 cars during the six-week overture period.

The latest delay will mean that through Eurostar services between London, Paris and Brussels will begin before the passenger shuttles. Eurostar is due to start commercial services on November 14.

UK NEWS DIGEST

Norwich Union set to shed one-fifth of jobs

Norwich Union, one of the UK's largest insurers, has announced plans to shed up to 2,000 jobs – one-fifth of its workforce – within the next five years.

Mr Allan Bridgewater, chief executive, said the job losses were needed because the group had to achieve productivity gains of 40-50 per cent over the next three to five years in order to remain competitive.

The job losses will include some compulsory redundancies, though Norwich Union hopes that voluntary departures will take most of the strain. About 450 staff are on short-term contracts, and the group loses around 600 staff a year through natural wastage.

Norwich Union is not alone among insurers in planning job cuts: in both general and life insurance business companies are facing increasingly tough competition.

The higher cost of meeting regulatory standards at a time of generally flat life and pensions sales is also putting pressure on margins.

The contraction in the financial services industry was also underlined last week in the annual report from the life industry's regulator. This showed the number of sales agents acting for life companies stood below 94,000 at the end of June, while in July 1991 it had totalled more than twice that number.

BAe warned over Airbus role

British Aerospace could lose its role as Airbus's wing designer and supplier if the government fails to buy the new European-made military transport aircraft, Mr Julian Tapp, BAe's chief economist, said yesterday.

Mr Tapp said purchase of the US-made rival offered by Lockheed could force BAe to drop out the the European consortium which is offering the Future Large Aircraft.

Production and design of the FLA's wing would then go to Deutsche Aerospace, the Daimler-Benz subsidiary.

When Airbus tackled the next generation of wide-bodied aircraft, Dasa would be able "to migrate its newly developed large-wing capability straight to the new project," displacing BAe, Mr Tapp said.

BAe, Britain's biggest exporter, would lose not only foreign sales of the military aircraft, but also those of Airbus's new large airliner. Britain's aerospace skills base would be seriously diminished, he added.

"We need a government with an aerospace strategy that supports industry and avoids this outcome," he said.

Turnaround for machine tools

The UK machine tool industry recorded a trade surplus of £5.7m in the first half of this year, compared with a deficit of £7.7m a year earlier, according to the Machine Tool Technologies Association.

The turnround continues the improved performance in the second half of last year, which enabled the industry to achieve a trade surplus of £9m for 1993 – its first for 10 years.

In the first half of this year, machine tool exports rose by 18.6 per cent to £174.5m, due mainly to strong growth in sales to the US and the Far East. Continental Europe still remained relatively weak, although there were signs of a recovery, the association said. Imports of machine tools into the UK rose 9 per cent to £168.7m, reflecting an improved level of manufacturing investment.

Airport bus link sold off

London Transport has privatised the ninth of its 10 bus companies with the sale of London United Busways, operator of the Heathrow Airbus service, to its management and employees for more than £35m.

This sale takes the total proceeds from the sale of London's red bus companies to more than £210m.

Four of the companies have been bought by buy-out teams while five have been acquired by other bus companies. London United has more than 450 buses and 1,400 employees. It operates mainly in west London.

Women 'in line for new jobs'

Unemployment will stay above 2m in Britain until at least 2001 in spite of a projected 1m extra jobs, says the review of the economy and employment published today by the Institute for Employment Research at Warwick University.

The report suggests that the bulk of new employment will come from "cyclical recovery rather than long-term growth". Male full-time jobs are expected to decline, with most additional employment going to women, the majority of whom will be working part-time.

The study forecasts an annual improvement of 3.3 per cent in industrial output from 1993 to 1997, the best performance in the British economy for 40 years, with a 2.7 per cent growth in output per person over the same period.

Monetary target attacked

The UK government's target for M0 – the narrow gauge of money supply – serves "no useful purpose" and should be scrapped, Mr Tim Congdon, one of the Treasury's independent advisers, says in the November edition of Gerrard & National's Economic Review.

Annual growth of M0 has been consistently above the government's target of zero to 4 per cent since January last year,having reached 7.3 per cent in October.

Mr Congdon says that if the Bank of England's claim that M0 has been a "good leading indicator of retail inflation in the past" was correct, its above-target growth ought to have had a significant impact on inflation.

Carey in plea for 'ethical business'

By Alan Pike, Social Affairs Correspondent

Commercial self-interest is likely to degenerate into "gangsterism and corruption" unless businesses are run according to sound ethical principles, Dr George Carey, archbishop of Canterbury, said yesterday.

Dr Carey, in an address to Manchester Business School, defended wealth creation and called for a stronger partnership between the churches and the business community.

He emphasised, however, that he did not regard vigorous wealth creation – without which there was little chance of overcoming the problems of world poverty and environmental degradation – as the same thing as the complete free play of market forces.

He said: "We need to ensure that we define our own ends as a society and do not pretend that we can abdicate our responsibility to market forces alone." The market was a good servant, but a bad master, and market forces needed to be "constrained and directed to service the common good".

Any attempt to remove ethics from business, was to "remove humanity" from the market. It was important for companies to develop a culture in which ethical dilemmas were worked through conscientiously, he said.

Dr Carey acknowledged that clergy had pronounced too glibly about the moral ambiguity of aspects of business.

He wanted the church to become more approachable and available for people who were trying to wrestle with ethical challenges in a competitive world, and hoped its liturgies and worship could reflect more adequately the "aspirations and contribution of all those who strive to create the wealth of our country".

Business expertise had a vital part in play in the management of the church, but the crude importation of business language and models would be inappropriate, he said.

Figures show strong industrial growth

By Peter Norman, Economics Editor

The UK government is expected to revise upwards its estimate of third-quarter economic growth after official figures yesterday showed that industrial production grew at an unexpectedly strong rate in the three months to September.

The output figures were well above City expectations. Together with other official data showing steady third-quarter growth in consumer credit demand to record levels, they quietened fears that the economy might be slowing in a delayed reaction to this year's tax increases.

Indeed, the good economic news contributed to a generally weaker tone on financial markets. Brokerage houses argued that the figures provided further evidence of a diminishing amount of spare capacity in the economy although the consequent fears of inflation and further base rate rises were only two of several factors depressing equity and bond prices. In London, the FT-SE 100 index closed down 31.8 points at 3,065.8 after a day of very thin trading, while prices for gilt-edged government bonds lost about ½ point.

The Central Statistical Office reported that output of the production industries, which include manufacturing, oil and mineral extraction and the electricity, gas and water supply industries, jumped a seasonally adjusted 1.1 per cent between August and September. It also revised upwards earlier statistics for July and August, estimating the present annual "trend" rate of growth for production industry output at 6 per cent.

Manufacturing output, which accounts for just over 84 per cent of overall industrial production, rose by a seasonally adjusted 0.6 per cent in September compared with August. The CSO, which revised an earlier fall in manufacturing output in August and boosted its estimate of manufacturing production growth in July, said manufacturing output was growing at a trend rate of 5.5%.

The Treasury welcomed yesterday's production figures although it declined to comment on the policy implications of the news. Officials pointed out that growth was broad based and noted with approval that the growth of output of investment goods, at 1.8 per cent between the second and third quarters, was stronger than that of the consumer or intermediate goods sectors. September's surge in industrial activity brought the output of the production industries to a new all-time high. But it restored manufacturing output only to the level of July 1990, on the eve of the last recession.

Oil and gas output now stands at an all-time high after increasing by 3.5 per cent between August and September as several fields returned to normal production following maintenance closures in August.

Taking a tortoise-like path to the truth

Jimmy Burns on the latest delay in the report of Sir Richard Scott's inquiry into arms sales to Iraq

Two years after his arms-to-Iraq inquiry was set up and seven months on from the end of the main public hearings, Sir Richard Scott is not even a quarter through writing his report. The estimated publication date has again slipped, this time to "sometime round Easter".

The latest delay has been greeted with concern by some Labour MPs, fearful that the momentum is being lost. Some of their colleagues, however, continue to flood the Scott team with documentation, claiming the inquiry has not gone far enough.

Tories, predictably, appear only too pleased to have one less hot potato to contend with in the current political climate.

One Tory MP with a special interest in defence matters, Peter Viggers, gleefully remarked this weekend: "It seems to have faded from the media, from the House of Commons, from everywhere."

Another Tory and one of Lady Thatcher's former senior advisers, Sir Charles Powell said: "I think by April the Scott inquiry is going to have a certain stale air."

Sir Richard appears unruffled by such sceptism while sensitive to the suggestion that his work is no longer an issue of public concern. And he is somewhat irritated by what he sees as the Labour party's inconsistent approach to his inquiry.

In November 1992 he agreed to head the inquiry in the midst of a huge public row – led by Labour – following the collapse of the trial of three executives of the machine tool company Matrix Churchill on charges of breaching export regulations.

Those charged alleged that they had exported to Iraq with the full connivance of government even though the UK was supposed to be pursuing a policy banning the sale of defence-related equipment to Baghdad.

While initially focused on the Matrix Churchill case, Sir Richard has been determined to ensure that his terms of reference were sufficiently wide to allow him to examine other arms-related prosecutions where the conduct of government lawyers has been open to question.

According to his officials, Sir Richard's low profile in recent months belies the progress he has been making towards completing an inquiry which has already forced ministers and officials to account for their actions in a way they have never been required to do before.

Mr Christopher Muttukumaru, the secretary to the Scott inquiry, says: "We don't want to be open to the suggestion that we haven't followed up every reasonable line of inquiry. If in the end we bring out a report which is not based on a firm footing, we will be rightly criticised. We are not having that."

In recent months, Sir Richard has found himself having to test the massive documentary and oral evidence made available to him by cross examining M16 officers in private, seeking further statements from Whitehall officials and ministers, and widening his list of witnesses to include Treasury minister Jonathan Aitken, and Sir Charles Powell, neither of whom gave evidence in public hearing.

Mr Aitken told the inquiry that while a non-executive director of the British Manufacturer and Research Company (BMARC), and subsequently as defence minister, he had no recollection of clandestine exports to Iraq or of government connivance.

Sir Charles for his part has told the inquiry that although he was aware of the attempt by Whitehall officials and junior ministers to secretly change guidelines on defence exports without informing parliament, this was not passed on to then prime minister Mrs Margaret Thatcher.

Among additional evidence that has landed on Sir Richard's desk in recent weeks are documents provided by Labour's transport spokesman Michael Meacher relating to the activities of the defence company International Signal and Control (ISC) prior to its purchase by Ferranti in 1987.

The inquiry team is probing the extent of British government knowledge of an ISC contract for the supply of a precision guided missile system (PGM) which may have been diverted to Iraq.

Mr Jim Cousins, Labour's foreign affairs spokesman, said at the weekend: "It's important that Scott should become more than an echo of distant thunder. He shouldn't be side-tracked by minutiae but concentrate instead on what the government knew and what that tells us about the nature of the arms trade."

For his part, the judge is adamant that he not dancing to anyone's political tune. "You shouldn't underestimate the extent to which he is determined to follow an independent line," says Muttukumaru.

Lord Justice Scott: aides say that his recent low profile belies the progress he has made towards completing his inquiry

At present the balance clearly lies weighted on the side of insuring that there is no whitewash.

Like Aesop's tale, Sir Richard is hoping that his "slow and steady" approach will help him, as it did the tortoise, get there in the end. And it will certainly be of small comfort to the government that the latest delay means the Scott report could now coincide with the first findings of Lord Nolan's inquiry into standards of public life.

Heseltine warns industry over investment level

By Philip Coggan and Paul Cheeseright

British Businesses are not investing enough, because of their excessive expectations of investment returns, Mr Michael Heseltine, trade and industry secretary, told the Confederation of British Industry conference yesterday.

The criticism cast doubts on the likelihood of the Chancellor granting business further tax concessions on investment in this month's Budget.

"The CBI tells me that businesses look for steady demand, for a decent return on new investment. You now have these conditions. But you are still not investing enough," Mr Heseltine said.

"The CBI tells me that the majority of firms continue to require rates of return above 20 per cent. A senior banker last week told me his bank habitually asked for 30 per cent returns on capital. These figures speak for themselves. They have a chilling message built into them," he added.

A 20 per cent return implies that projects have a payback period of only about three years.

This chiding wrung from Sir Bryan Nicholson, the president of the CBI, who acknowledged that "clearly there is the case for companies re-examining their rates of return".

Mr Heseltine's criticism was an indirect rebuttal of the argument by Mr Howard Davies, director general of the CBI, that the government's competitiveness White Paper contained a gap on the tax question. "There is too little recognition of the importance of a tax environment sympathetic to investment" Mr Davies said.

Small business lobby groups have been calling for the Chancellor to give 100 per cent capital allowances on the first £100,000 of investment.

The CBI's National Manufacturing council has identified consistently sluggish investment as a major factor behind the UK's productivity shortfall relative to its competitors.

Mr Heseltine also launched what he described as "a new strategy for flushing out the world's free trade defaulters". He called on businesses for the facts on trade barriers, so he could attack them, but did not announce any new weapons for battling defaulters from the free trade system.

EU 'must look to the east' says Cook

By Paul Cheeseright

The European Union should be more concerned about expanding to the east, its historic mission for the 1990s, than tightening the links between the present member states, Mr Robin Cook, the shadow foreign secretary, said yesterday.

In his first speech since Mr Tony Blair, the Labour leader, appointed him, Mr Cook laid out the priorities of the opposition's European policy.

Mr Cook told the CBI conference: "we should take no steps to deepen the bonds of the European Union which will make it more difficult to widen access."

Talks to define future relations between the EU and Eastern European countries once part of the Soviet bloc have started but there is little expectation of the EU having eastern members during this century.

Mr Cook put EU accommodation with the east, the buttressing of market economies there, as one of his four priorities. The other three reflected a close identity of view between the Labour leadership and the CBI.

First he called for the proper working of the Single Market, citing anomalies like the British import of electricity from France and the French refusal to import or transmit elsewhere British electricity.

Second, he demanded symmetry of regulation – the imposition of EU rules even-handedly across the EU countries.

Third, he urged the reform of the common agricultural policy.

Business leaders later argued that separating activities of government and business would strengthen the single market. "Over regulation destroys jobs. Freeing business from unnecessary regulations is one positive step in addressing the critically high unemployment," said Sir Michael Angus, deputy president of the CBI.

UNICE, the federation of European employers's organisations, called for close analysis of the costs and benefits of European legislation. "Every project should be judged in terms of its positive impact on competitiveness and nothing else," said Mr François Perigot, the president.

Sir Michael, true to CBI form, wanted to ensure that "social objectives are not pursued at the expense of competitiveness but rather result from it."

Blair to set out business agenda

By Kevin Brown, Political Correspondent

Mr Tony Blair will today set out a framework for a working relationship between business and a Labour government, based on partnership and a positive approach to the European Union.

In an effort to reassure business that the party has dumped its 1970s ideological baggage, Mr Blair will offer strong support for a dynamic market economy in which the role of government is limited to support for industry.

"It will require a new style of government and a new relationship with industry," Mr Blair will tell about 200 senior executive members of the Per Cent club, which organises charitable activity.

"New Labour will not return to the old style, corporatist, Whitehall-knows-best attitudes. Our job is not to do the work of individual companies but to create a government in which all sides of business work together."

Mr Blair will declare that the debate between privatisation and nationalisation is over, and rule out a return a return to the punitive rates of marginal taxation imposed by the last Labour government.

He will also acknowledge the abandonment of Labour's one-time plans to dismantle the framework of employment law established by the Conservatives since 1979. But Mr Blair will stress that Labour plans a radical programme of industrial and economic change.

"Tory radicalism may be extinct now that Thatcherism is dead, but Labour's radicalism is not. The idea that all radicalism is dead because Thatcherism is dead is absurd," he will say, promising a transformation of education and training; fresh thinking about Europe, competitiveness and success; and more help for industry to develop infrastructure and skills.

Ferry ban hits calf prices

By Alison Maitland

Calf prices have fallen by 30 to 40 per cent in some markets in south-west England as a result of Brittany Ferries' decision last Friday to join a ban by cross-channel ferry companies on exporting animals for slaughter.

Sir David Naish, president of the National Farmers' Union, said yesterday he was increasingly concerned about market prices, which had already fallen by 15 per cent year-on-year since P&O and Stena Sealink banned live exports in the summer.

Brittany Ferries, which had continued to carry animals for further fattening before slaughter, said last week it was halting this trade because of "flagrant breaches" by hauliers of its code of conduct. This confined deliveries to Normandy, Brittany and the Loire, but some hauliers were transporting animals as far as Spain.

Sir David has written to Mr René Steichen, EU farm commissioner, saying European-wide rules must be introduced urgently to control cowboy hauliers.

The ferry companies have said they will maintain their bans on the £200m live export trade until member states agree improved standards.

Mr William Waldegrave, agriculture minister, told Sir David yesterday the issue was not on this month's farm council agenda, but would be discussed in December.

"This is rather exasperating, to say the least," commented an NFU spokesman.

Last month, farm ministers failed to agree on maximum journey times before animals are rested and fed, with northern member states favouring eight to 15 hours and southern states preferring 22 hours.

The UK government is working on a new code of practice on welfare standards, but consultations have taken longer than expected, Sir David said.

Vanessa Houlder on growing international competition to capture a share of the LCD market

The future is crystal clear

When an earthquake hits Sharp's liquid crystal display plant at Tenri in Japan, its manufacturing operations automatically shut down. Otherwise, this stark, pristine factory – where the automatic guided vehicles are more evident than people and the air is a million times cleaner than the outside world – works round the clock, turning out 120,000 displays a month.

The plant is one of the most sophisticated in the liquid crystal display industry, which is becoming larger and more innovative each year. The thin profile, light weight and moderate power consumption of LCDs make them a vital component in everything from laptop computers to control-panel displays in jet aircraft.

Growing demand for LCD screens is creating intense international competition for a share of the $5.3bn (£3.3bn) world market. At present, Japanese manufacturers, led by Sharp – which claims a 45 per cent market share – have a virtual monopoly of the market.

Japan's dominance of this technology has spurred the US government into taking one of its boldest industrial policy initiatives for many years. In April, the Clinton administration announced a plan to provide about $700m for the development and manufacture of flat panel displays in an attempt to wrest market share away from the Japanese producers.

The Japanese manufacturers, however, are spending heavily in an attempt to preserve their lead. Sharp, for instance, is spending Y120bn (£759m) on LCD plant and equipment in the three years to 1995; it is building the world's largest LCD plant in Taki-cho, between Osaka and Nagoya at a cost of Y53bn.

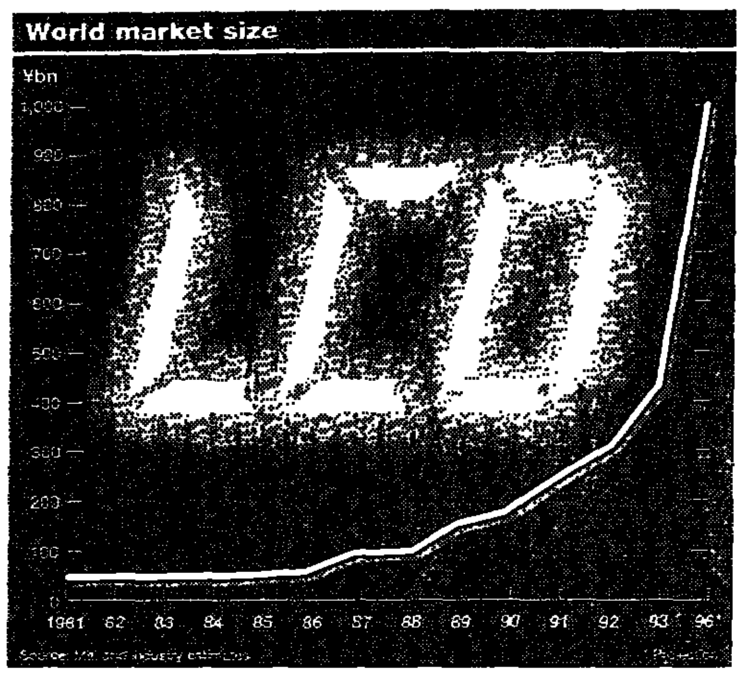
The company's involvement in the LCD market goes back to the early 1970s. That was a few years after the discovery by RCA, the US broadcasting company, that liquid crystals – substances that behave optically as a crystal and mechanically as a liquid – could be made to realign so they transmitted light when subjected to an electric charge.

The finding was quickly exploited in cheap watches and calculators. But the poor quality of the early LCDs, which had weak contrast and a narrow viewing angle, made them unsuitable for displays larger than a watch face.

Over time, LCDs went through a number of enhancements. A sharper contrast was produced, for example, by the introduction of supertwisted nematic LCDs. Another important breakthrough came when passive-matrix LCDs were superseded by active-matrix LCDs, in which individual transistors turn each element in the display on and off. The full colour and high contrast of these displays allowed them to be incorporated in miniature colour televisions.

Sharp's position in the flat panel display market was reinforced in 1986, when it decided to redouble its research efforts in LCDs. The sharp increase in the value of the yen in 1986 convinced the company it had to shift more of its products from labour-intensive to knowledge-intensive products. Haruo Tsuji, the newly-appointed president, was looking for another mainstay besides semiconductors. "We decided to devote particular efforts to LCDs," he says. "I felt keenly there was a need for a successor to cathode ray tubes."

Sharp and its rivals have put immense effort into trying to increase the size of the displays. In 1988, it presented the first display that measured 14 in across the diagonal. It has recently created a new record by producing a prototype of a 21 in screen.



Building large displays poses formidable problems. A display is made up of hundreds of thousands of individual pixels, or dots, each of which must be controlled by a tiny transistor. The importance of avoiding even a single flawed pixel requires extraordinary precision on the part of manufacturers, even by the exacting standards of the electronics industry.

The technical difficulty of building large LCD displays at an acceptable price has prompted some companies to work on other technologies

As screens become larger, manufacturers also face greater problems in fabricating the thin film transistors uniformly, distributing the liquid crystal material evenly and resolving timing problems in the signals.

Research is continuing into producing higher quality images, thinner profiles and lower power consumption of the displays. At the same time, the manufacturers are trying to improve manufacturing yields and reduce costs.

A potential threat for manufacturers is that competition will drive down prices. Competition is intensifying, particularly as Korean manufacturers, such as Samsung, Hyundai and Lucky Goldstar, move into the market.

But Tsuji believes that demand for LCDs is growing at a pace sufficient to outstrip supply. His judgment is backed by Koichiro Chiwata, electronics analyst at Salomon Brothers in Tokyo, who believes that supply and demand for LCDs will remain tight enough for Sharp's LCD business to "do well for at least the next five years".

At present, two-thirds of the LCD market is used for notebook computers; the second most important application is for display screens in Pachinko parlours, amusement arcades where a Japanese version of pinball is played. But other uses such as wall-mounted television, video projectors, navigation systems, portable game machines and personal information tools, are expected to expand the market.

Sharp is devoting particular research effort to developing new products that include LCD screens. One example is the Viewcam, a camcorder with an LCD monitor instead of a traditional viewfinder, which it introduced in 1992.

Although most LCD-based products currently make use of the "shutter function" of liquid crystals, new applications could stem from their other properties, such as their ability to react to light and to store information. These qualities have already been put to use in the development of a pen-based word processor, which senses the movement of a pen on the screen.

Sharp believes the market will grow to $20bn by the end of the century. "I consider the field of LCD is really immense and extensive," says Tsuji.

Another possible threat to Sharp's dominant position in the market is that LCDs will be superseded by another technology. The technical difficulty of building large LCD displays at an acceptable price has prompted some companies to work on other technologies. For example, plasma displays, in which images are created from gas-filled tubes, are considered to be a leading contender in the race to create a market for flat, wall-mounted television screens.

A number of technologists are backing ferroelectric displays, a form of LCD technology that does not require transistors to switch the liquid crystal cells, as a cost-effective approach to building large display screens. Electroluminescent displays, which depend on an electron exciting a phosphor in a thin film, are also receiving close attention.

A number of international companies are devoting particular attention to field emission displays, which resemble an array of tiny cathode ray tubes. Although it is still relatively immature technology, its backers believe it could score over LCDs because it would be relatively cheap to produce.

Sharp, too, is working on the next generation of display technologies. But for the present, it believes the supremacy of LCDs is assured. "In five, seven, 10 years from now, LCD will be the main type of product [in flat panel displays]," says Atsushi Asada, senior executive vice-president.

Sharp's continued lead in LCDs cannot be guaranteed, but its strong performance in the sector has stood it in good stead at a time when Japanese manufacturers are suffering the effects of the high yen and consumers' jaded appetite for electronic gadgets.

Sharp acknowledges it cannot be complacent. The rise in the value of the yen costs Y3bn in profit for every point gained against the dollar. According to Taizo Katsura, senior executive vice-president, it is crucial the company continues to develop high-value components. "As a manufacturer we cannot be competitive by depending on the assembly side," he says.

It will also need to maintain its edge in research. Technological innovation is crucial if the company is to devise the next generation of products that will open up new markets, says Tsuji. "We have to develop key technologies."

Technically Speaking

Overloaded on the Internet

By Tom Foremski

The popular science fiction author Stanislaw Lem wrote a short comic story about an intergalactic pirate who is obsessed with adding to his store of information. Pirate Pugg kidnaps space travellers and forces them to tell him everything they know. He is finally defeated by a contraption that spews out all kinds of detailed but unimportant information such as how many sizes of bedroom slippers are available on the continent of Cob.

Pirate Pugg is unable to tear himself away from the growing mountain of information in case he comes across the answer to the "Ultimate Mystery of Being".

Sometimes when I'm roaming the Internet, I feel like Pirate Pugg. There is an incredible amount of information available through the Internet but finding something useful is a frustrating experience.

The Internet allows you to access information on tens of millions of computers worldwide, and brings the prospect of a global repository of knowledge, mostly free. Users, or surfers as they like to be called, can access huge amounts of information. There are hundreds of millions of plain-text articles accessible on a huge variety of topics.

Newsletters and magazines of various kinds are proliferating on the Internet since it is the cheapest way to publish. There are no printing costs, and almost no mailing costs. The beauty of digital technology is that the digital text can be duplicated virtually for nothing.

While putting information out on to the Internet is easy, the problem is finding the right piece of information when you need it. And here is where we need new technologies to help us sift huge amounts of information.

Strictly speaking, we should not call it information until we have processed it ourselves. Until it informs us about something we were looking for. Everything on the Internet should be considered as data of one kind or another – it becomes information when we have turned that data into a useful form.

But finding a specific piece of data can be a mammoth chore. Formulating a vaguely phrased search can return an enormous amount of leads. Such searches are normally based on the presence of specific key words in millions of documents.

Sending out a more detailed search request narrows the choices but here is where the problem lies. Often, a narrow search will non find a relevant and possibly more useful document because it does not contain the keywords or contains them in a low number.

What is needed are specific tools that can carry out searches with a certain amount of artificial intelligence – an approach that takes into account the less focused aspects of conducting searches. Such tools are the key to unlocking the potential of the Internet.

While many Internet enthusiasts champion the egalitarian culture of the Internet, where many people throw information into a collective repository without concern for payment, there is as yet little evidence to show how useful it is to have access to this huge pool of information.

For example, when Gutenberg invented the printing press, it helped generate an information explosion since books could be produced more quickly and more cheaply than ever before.

This resulted in the flowering of the Renaissance and the rediscovery of ancient Greek, Roman and Arabic texts that led to establishing modern science and accelerated the move away from feudal societies.

Will the Internet and future information superhighways result in a similar impact on society? Or are we already in information overload and unable to effectively process the information we have access to?

My suspicion is that the latter is true. Many of us seek and hoard information like Lem's Pirate Pugg but we are often unable to fully make use of it in a meaningful way.

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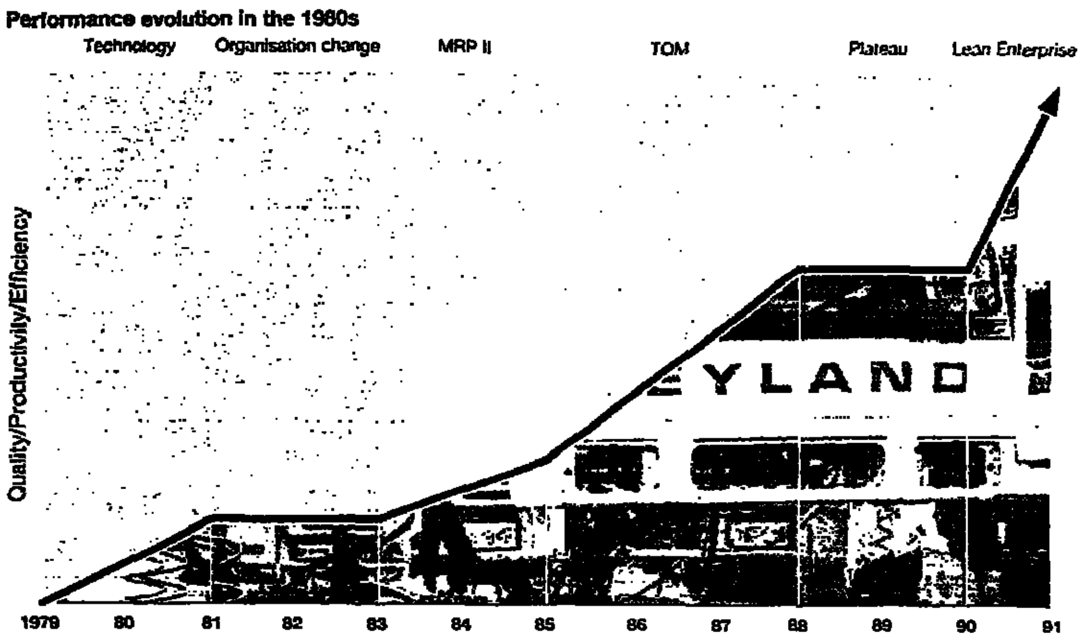
- Konosuke Matsushita, late founder of the Japanese electronics company, in 1982.

Leyland Trucks

Performance evolution in the 1980s



From fat to lean enterprises

Richard Gourlay on how a leading Japanese consultant was impressed by production techniques at Leyland Trucks

A high-tech building that houses 70 product designers stands in a corner of Leyland Trucks' Lancashire assembly complex in the north-west of England.

To Masaaki Imai, who has been introducing Japanese manufacturing techniques outside Japan for more than two decades, the location of these designers is a sign of real progress.

"Normally designers in the west think they are geniuses," says Imai, president of the Kaizen Institute, a European consultancy. "They want to have nothing to do with shop floor even though they are serving the shop floor."

To test how far Leyland Trucks has changed, the Financial Times asked Imai, author of a book on *Kaizen*, or continuous improvement, to cast an eye over Leyland Trucks.

A short step away from the designers' building, Imai examines the clearly delineated passage alongside the production line. There are almost no obstacles preventing free flow of workers and fork lift trucks. "I'm impressed by the housekeeping," he says. "Anything not in the right place suggests systems are not there."

Turning to a stack of components beside the line, Imai is more critical. "You could cut work in progress to one half and see what opportunities it throws up."

Leyland Trucks has had a chequered history, emerging in 1993 as a management buy-out from the receivers of Leyland Daf. Once a sizeable force in truck manufacture, lack of investment in new products and increased competition from Continental manufacturers cut Leyland Trucks' share of Europe's 5-15 tonne market to only 7.5 per cent.

But over the past five years Leyland Trucks has been introducing what it calls "lean enterprise", based on lean production methods that have spread from companies such as Toyota and encompass total quality management, total productive maintenance and just in time.

The management believes it has overturned the rigid hierarchies of traditional mass production techniques that have dominated more than 90 years of truck manufacture at Leyland. In its place, lean enterprise has involved the workforce in a quest for quality to a degree that would have been unimagineable a decade ago.

Suppliers and even organisations such as the Lancashire Police Force tour the plant each week to view what Leyland Trucks says is a striking transformation.

The arrival at Leyland is both impressive and inauspicious. Following heavy investment at the start of the 1980s, Leyland Trucks has one of the most modern facilities in Europe. But it is big. A factory that can manufacture 18,000 trucks a year on single-shift working is producing only 8,500 vehicles. Lean production theory says dead space will be filled with unnecessary inventory or will lead to movement of parts and people that adds no value.

Imai believes the same production could be achieved in half the space, a change that would force a reduction in inventory beside the production line and a reassessment of relations with suppliers.

John Oliver, Leyland Trucks managing director, accepts the point. He is trying to find contract assembly work for one of the two production lines. If unsuccessful, however, he may close part of the plant.

Even with this expansive factory set-up, Oliver says the impact of lean engineering has been dramatic. Leyland Trucks first stepped on to the treadmill of a continuous improvement in 1989 with a programme of training and production process changes that cost £100,000. Within two years Oliver says the company measured savings of £10m – repeatable each year. Some came from reducing head count. But much of it was the result of lower inventory and improved quality.

"That was a 24 per cent reduction in annual operating costs and it took our break even from 11,500 trucks a year to 5,000," says Oliver. But this approach came only after a decade in which Leyland Trucks tried more traditional ways to crank up quality. First there was investment in new plant in the early 1980s, followed by introduction of Material Resources Planning (MRP II). But after three years of a total quality programme starting in 1985, quality and productivity improvements plateaued.

"We were stagnating," says Oliver. "There was resistance in the organisation to more change - the people were exhausted. On top of that the market was turning down.

"We had thought the Japanese success was because of high technology and the people working very hard," he says. "But Matsushita was saying what mattered was not a physical manifestation of commitment but the intellectual resources of all the employees. We were asking these people to hang up their brains when they came in to work."

The company set about educating its workforce about lean production: why Leyland Trucks needed to build to order, rather than for stock as its European competitors do, and the crucial role of employees in the search for improved quality.

Imai is full of praise for the management's commitment to involving the workforce. But he feels management could set more targets. "Too many western managers think TQM means just letting the lower level people form a quality group to come up with ideas," says Imai. "But management should always be challenging the workforce by setting targets."

Oliver believes this is what management is doing but admits that "in the early days we were confused between delegation and abdication of responsibility" to the workforce.

The changes the workforce has accepted are considerable. As recently as 1989, there were 50 job demarcations at Leyland Trucks. Now there are only six descriptions, allowing more flexible deployment of the workforce.

Perhaps the most fundamental change has been the introduction of Additional Vacation Days, where overtime is now "paid" in extra holidays which are taken when there is slack demand. Before this system the workforce might have been paid overtime one month only to be laid off (with pay) the next because demand had slackened.

The union has now accepted a system that more closely matches the supply of labour with the unpredictable demand of its customers.

"Nobody liked AVDs and they still don't," says Steve Southworth, union convener at Leyland Trucks. "But they understand why it has to be done after going through lean enterprise training. It saves the company money and when you are building to order you have to do it."

Having introduced the idea of lean production at Leyland Trucks, the company is now focusing on a programme of "supply chain optimisation" – spreading the word about lean enterprise to its 800 suppliers.

There are obvious areas of co-operation – new models are now discussed at the design stage with suppliers rather than after design is completed. But Leyland Trucks' small size remains a constraint. Much as John Dwyer, operations manager, would like suppliers to deliver fewer parts more frequently, he admits Leyland Trucks would be asking for uneconomic order sizes.

To Imai, the assembly plant was a pleasant surprise. "It is quite an achievement to have reached a stage where they can start building their trucks after they receive their orders." But he says the Leyland assembly plant still contains a mountain of opportunities for further improvement.

Oliver agrees the company is still some way behind the best Japanese standards. The achievements to date have, however, allowed the company to invest £35m on its new 55 series 11-15 tonne truck for continental Europe, its first new product launch outside the UK.

Given Leyland Trucks' history, this could only be contemplated because the company is making the transition from outmoded mass production techniques to the lean production methods of the future.

Call for higher VAT thresholds in Europe

The British government should lead a campaign within Europe to raise substantially the threshold at which companies must register for and administer VAT, says David Kern, chief economist of the National Westminster Bank.

Raising the threshold would release many small businesses from the excessive burden of administering the tax, he says.

"What we need is a legalised black market," Kern says. "At the moment we are asking potential entrepreneurs to start worrying about form filling at a point where they are too small to do it."

Raising the VAT threshold would liberate businessmen and women to focus on building and nourishing businesses.

The case for raising the threshold is valid throughout Europe, Kern says. "Europe is a low growth and high unemployment area," Kern says. "The employment rules are already very rigid in Europe. By reducing the obstacles to people starting their own businesses, Europe would generate a more enterprising economy."

In the UK, Kern says NatWest Bank is asking the chancellor to use the Budget later this month to raise the threshold from its current level of £45,000 to £60,000. But, he says, a £100,000 threshold should be the target.

The cost to the Treasury, even at the higher level, "is not negligible, but small given the state of public spending", he says.

Based on VAT statistics, Kern estimates the following benefits.

● Raising the threshold to £60,000 would cost the Treasury £120m. It would remove 125,000 companies from the VAT net.

● Raising it to £75,000 would cost £245m and liberate 230,000 companies.

● More than doubling the threshold to £100,000 would cost £425m but would remove 400,000 companies from the burden of administering VAT. A 20 per cent rise from £37,600 last November took 75,000 businesses out of the net.

Any move to raise the threshold could run into severe difficulties in the European Commission. When the government last raised the threshold, UK Customs & Excise had "informal chats" to make sure there were no objections.

Previous increases show the UK government is pushing the thresholds above the rate of inflation because it is good for business. The last four increases in the thresholds, starting in March 1991, were respectively 38 per cent, 4.5 per cent, 2.7 per cent and last November's 20 per cent rise to £45,000.

But the UK knows it cannot push Brussels too far. Any radical departure from this ad hoc system of back door derogations would be resisted in Brussels unless there was a political will to change the system throughout Europe.

This is unlikely, given the battle over new VAT rules already taking place in Europe. The EU is moving towards collection of VAT at rates applicable in the country of origin rather than at rates prevailing at the destination – a system that is likely to need harmonisation of thresholds rather than more divergence.

'For many people the cost of administering VAT is greater than the tax they actually pay'

Some say that Kern's call for higher thresholds is not sufficiently radical. Graham Bannock, a small companies consultant, says administering VAT is a very real problem for small companies.

"For many people the cost of administering VAT is greater than the tax they actually pay," he says. But rather than tinker with the existing system, Bannock believes the government should simplify an unnecessarily complex law – removing zero-rated categories and lowering the overall rate, for example.

This is the only way to ensure businesses and the Customs & Excise have a workable tax to administer, he believes.

RG

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PEOPLE

Green-Armytage's transition to textiles

N.M. Rothschild's Jock Green-Armytage (right), 49, who is to take over as chief executive of textile makers William Baird at the start of next year, is one of those merchant bankers who has always fancied running a proper business but has had some difficulty making a permanent transition from City life.

Canadian-born Green-Armytage describes his new job as "an irresistible challenge". He takes over from Donald Parr, 64, who has been Baird's chief executive since 1978 and will remain on the board as non-executive chairman.

Green-Armytage has been a director for a couple of years and first got to know the textile industry when he was helping bring some of Rothschild's textile clients to the stock market in the 1970s.

Although Baird has never cut its dividend, has survived the recession better than many textile companies, and has no gearing, there has been a feeling in the City that there was a need for some "fresh blood" at the top.

The company suffers from low margins on its £500m turnover and a lot of top management time has been involved in trying to dispose of the group's non-core Darchem engineering and contracting activities.

Donald Parr says his company has gone outside for his replacement because the textile industry was "not a tremendous pool to fish in".

Green-Armytage joined Rothschild's corporate finance department in 1970 and left in 1981 to be managing director of Guthrie Corporation, an international industrial holding company which had been bought by the Malaysian government. He increased its profits from £1.7m to £22m and led Guthrie back to the UK stock market in 1986.

However, Guthrie was soon swallowed by BBA Group and Green-Armytage did not have quite the same impact in his next job – helping sort out Kelt Energy, the highly indebted energy producer.

In little more than a year he had quit and returned to Rothschild where he has been helping reorganise the management of the asset management area.

Myring quits

■ David Myring is to leave his job as finance director of SWALEC, the regional electricity company for South Wales *next summer. When appointed* in 1988 he was the first rec finance director to be appointed from outside the *industry in the run-up to privatisation*. An Oxford graduate, he had worked in the oil industry heading up the commercial division of Britoil, now part of BP.

Myring, 52, has told the company he is not intending to take up full-time employment elsewhere; 1995 "seems an appropriate time for me to bow out," he said.

As Myring has elected to step down he will not be entitled to compensation. However, before he goes, he will be able to take options on 35,000 shares at 451p. At yesterday's price of 820p this would give him a gross profit of about £130,000 if he chose to sell them.

Options on another 15,000 shares will elapse because he will leave before he becomes entitled to buy them.

■ David Lenham, 47, deputy finance director of the McKechnie engineering group, has taken over as finance director of READICUT INTERNATIONAL, the West Yorkshire textile manufacturer. He replaces John Gibson who has left. Lenham's arrival has been characterised as a "team-building exercise" and is understood to be unconnected with the financial performance of the group which reports its interim results in a fortnight's time.

■ FORTE has appointed Peter Cardnell, 39, managing director of County Hotels, a new company which it created last month for lower-grade hotels which will no longer carry the group name.

Cardnell has been with Forte for 21 years, most recently as executive director of Forte *Heritage. County consists of 80* hotels which no longer fit into any of Forte's other brands and the company hopes to find a *buyer or joint venture partner* for it.

■ Paul Mason, merchandise director of B&Q, *part of* Kingfisher, has been appointed to the ASDA management board as store development director.

■ Edward Libbey, formerly director of manufacturing and supply, BP Oil Europe, has been appointed president of WHATMAN's North America region.

■ Victor Giannandrea, a former sales director at Silentnight, has been appointed sales and marketing director of AIRSPRUNG BEDS.

■ Judith Hanratty, head of BP group insurance and md of the Tanker Insurance Company, has also been appointed company secretary of BRITISH PETROLEUM on the retirement of Richard Grayson.

■ Jon Seddon, formerly finance director of British Aerospace Enterprises, has been appointed finance director, and Andrew Lockwood director of the transmission products and systems business unit, of ABB Nera.

Bodies politic

Sir William Ryrie (above), the former chief executive of the World Bank's International Finance Corporation, has been appointed deputy chairman of the British government-backed Commonwealth Development Corporation which lends money in over 50 countries.

Sir William, who will be 66 next week, stepped down from the Washington-based IFC earlier this year. He is an executive director of Barings and was appointed to the CDC board in February. As a former permanent secretary at the Overseas Development Administration, he knows well both the CDC and the developing world. He takes over as deputy chairman from Sir Michael Caine, 67, the former chairman of Booker, who has served on the CDC board for nine years.

The Institute of Taxation, which has grown rapidly in recent years and now has 10,000 members, has appointed Robert Dommett 48, as its first ever secretary-general.

Dommett, who was chief executive of the Surrey Building Society which merged with Northern Rock in 1993, takes on the new upgraded post after the retirement of Ronald Ison, secretary, next February.

The IoT appointment comes at a time when the institute is seeking a higher profile and has become increasingly criti*cal of the quality and quantity* of new tax law and the efficiency of its implementation.

Dommett (below), who rose *through the ranks of the Char*tered Building Society to become deputy chief executive, is a fellow of the institute of *bankers and the chartered* institute of secretaries and administrators. He will be taking up his new role at a time when leading members of the IoT, which deals with all aspects of direct and indirect taxation, are repeating calls for the government to simplify the entire UK tax system.

Dommett would appear to have the stamina necessary for such a task. His hobby is marathon running; he has so far completed 11 – six in London alone and three in New York.

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BUSINESS AND THE LAW

Turk granted more time in Germany

EUROPEAN COURT

A Turkish national living in Germany was entitled to an extension of a temporary residence permit, because it would enable her to take up a job offer, the European Court of Justice has ruled.

Mrs Eroglu, a Turkish student, arrived in Germany in 1980 to follow a business administration course. Her father had been living and working quite lawfully in Germany since 1976. In 1987, she completed the course successfully and began to study for a doctorate. During these years, she had been granted temporary residence permits all limited to one year and marked valid only for the purposes of study.

In 1989, she was granted a conditional residence authorisation allowing her to carry out specific work for a specified company. This authorisation was given until 1992 and was varied in 1991 to allow her to work for another company. She also had the necessary work permits.

In 1992, she applied for an extension of her residence permit to allow her to continue working for her last employer. Her application and subsequent appeal were turned down. She then brought proceedings before the Karlsruhe Administrative Court. In the meantime, she had been offered a job by her first employer. In court, Mrs Eroglu claimed she had the right of residence in Germany by virtue of two provisions contained in a decision made pursuant to the Association Agreement between the then EEC and Turkey.

The first provision of the decision gave a Turkish worker, duly registered as belonging to the labour force of a member state, the right to the renewal of a work permit after one year's employment with that employer.

The second provision allowed children of Turkish workers who had completed a course of vocational training in the relevant member state to respond to any offer of employment there, irrespective of how long they had been resident there, provided that one of their parents had been legally employed in that member state for at least three years.

The German court held that although the refusal to renew the residence permit was lawful under German law, the position was not clear with regard to EC law. It referred the issue to the ECJ.

The ECJ held as a general point that the relevant decision within which this provision was contained did not encroach on the power of member states to regulate both the entry into their territory of Turkish nationals and the conditions of their first employment. Rather, insofar as the first provision was concerned, it made provision exclusively for Turkish workers already registered as belonging to the EU labour force. The Court said the aim of the first provision was solely to ensure continuity of employment with the same employer after an initial period of one year.

In the present case, Mrs Eroglu had changed employers but was seeking a work permit extension to allow her to work for her first employer. The Court said the relevant provision did not entitle a person in such a position to the renewal of a work permit.

As to the second provision, the Court stated that the right to residence was essential to access to, and pursuit of, any paid employment, whether for the same employer in connection with renewal of a work permit, or for another employer. It was clear therefore that the right conferred on a person by the second provision implied the recognition of a right of residence for that person.

The German government's argument that the right under the second provision was subject to conditions concerning the grounds on which a right to enter and to stay in a member state was granted, was not upheld by the Court. The fact that the right was not given with a view to reuniting a family, but rather, was for the purposes of study, did not therefore deprive the child of a Turkish worker from enjoying the rights conferred by the provision in question.

The Court said therefore that a Turkish national who satisfied the conditions in the second provision could rely on that provision to obtain a residence permit extension.

C-355/93: Eroglu v Land Baden-Württemberg, ECJ 6CH, 5 October 1994.

BRICK COURT CHAMBERS, BRUSSELS.

Goodbyes are still golden

Investor value is not always reflected in directors' pay, writes Robert Rice

In the 18 months since Mr Alastair Ross Goobey, PosTel's chief executive, wrote to the chairmen of FTSE-100 companies informing them that in future he was "minded" to vote against three-year rolling contracts for directors, life for Britain's bosses seems to have changed little.

His concern was not that executives were receiving excessive rewards for doing a good job, but that long rolling contracts were allowing executives to walk away with huge pay-offs often when they had failed to come up to scratch.

As head of the UK's largest pension fund, which owns 1.5 per cent of the stock market by value, his views ought to carry some weight in British boardrooms, and indeed, some progress has been made.

Mr Ross Goobey says three-year rolling contracts are now in a minority in FTSE-100 companies. But wider recent research by Bacon Woodrow suggests they are not yet a thing of the past. Bacon Woodrow found that of 954 directors questioned, 39 per cent were on rolling contracts of three years or more.

The large pay-offs which result from these three-year rolling contracts – which at any time are assumed to have three years to run before expiry – also show no signs of abating. In the year to June, so-called "golden goodbyes" topped £30m. The £4m paid to four former Tiphook directors and the £2.02m package for Mr Peter Davis, former co-chairman of Reed Elsevier, the Anglo-Dutch publisher, are recent examples.

These pay-offs add to public concern about executive pay in general, which although rising at the lowest rate of increase for five years, is still outstripping the level of wage rises for the workforce as a whole.

According to a study published last week by the Monks partnership, an independent remuneration adviser, the highest paid directors in British companies with annual turnovers of more than £400m, received median increases of 9 per cent last year, three times that of the workforce. The study also showed that the number of UK companies that pay their highest earning executive more than £1m has doubled over the past 12 months to 16. Only executives in Germany, Italy and the US are ahead of the UK's top earners in cash terms.

Head of the list of top earners was Mr Peter Wood, chief executive of Direct Line, Royal Bank of Scotland's insurance subsidiary, with a total remuneration package worth £18.4m, way ahead of Mr Bob Bauman, former SmithKline Beecham chief executive on £1.89m.

An increasing percentage of these huge remuneration packages is made up of performance-related bonus payments. According to the Monks' study, bonus payments account for an average 18 per cent of total remuneration and contribute 15 per cent to the remuneration of the best paid directors.

A successor to the comittee chaired by Sir Adrian Cadbury (left) focusing on executive remuneration is overdue says lawyer Denise Kingsmill (right)

But research by Datastream suggests there are some large disparities between pay rises for executives and returns for shareholders.

This is backed up by a recently published study by American pay expert Professor Graef Crystal. Prof Crystal compared total remuneration packages of the top directors of the FTSE-100 companies with the total return to shareholders of their companies and concluded many British bosses are "overpaid".

Great emphasis was placed by the Cadbury committee on corporate governance on the role of the company "remuneration committee" in curbing excesses in boardroom pay. Composed of non-executive directors, remuneration committees, whose role is to set remuneration for companies' executives, were seen as the vehicle to ensure a better match between executive pay and shareholder value.

Most UK public companies now have them, but there is growing acceptance that they are still not functioning as they should. A follow-up to Cadbury is promised for 1995, but many lawyers believe action is needed now.

Ms Denise Kingsmill, a specialist employment lawyer who counts Mr Peter Wood of Direct Line, Cyril Stein, former Ladbroke chief, and George Walker, former head of Brent Walker, among her clients, says a "Cadbury 2" concentrating on the role and powers of remuneration committees is overdue. The big question mark over remuneration committees is their independence, she says. They are made up of non-executives, but non-executives who tend to be executives elsewhere, and as such they have an interest in keeping the general level of executive salaries up.

Ms Kingsmill also believes it is time for a wider look at the role of non-executives, and in particular at the way they are appointed. In spite of placement companies, such as Proned, being a "chum of the chairman" remains the main route to a non-executive appointment.

Part of the reason many non-executives do not perform as shareholders would hope, is because they are not properly remunerated, she believes. "You don't want a situation where they are paid so much that their independence is compromised by their financial dependence on the company. But they must be properly remunerated," she says.

But how much is enough? The average is £15,000-£20,000 for about 10 days work a year. But that is neither enough money nor enough time, says Ms Kingsmill. There are papers to read before meetings and good non-executives need to get to know the business and stay abreast of developments.

These responsibilities require proper remuneration, but non-executives should not get pension arrangements or share options. They should, however, be encouraged to buy shares to cement their relationship with the business.

There is also a need to widen the range of non-executives, she says. Most companies only have one non-executive from an alternative background and if they can double up by making the alternative a woman, so much the better.

Cadbury 2 could clarify the role of remuneration committees and non-executives, but what criteria should remuneration committees follow in setting executive pay to ensure a better match between remuneration and shareholder value?

At the moment there is too much emphasis on what executives are paid rather than how and why, Ms Kingsmill says. They need to distinguish between come-to-work pay, set by the market place, performance-related pay, received if goals are met, and profit-related pay. "If you get the balance right, you're on your way to ensuring directors don't get remunerated in circumstances where the company is not giving shareholder value," she says.

Ms Kingsmill says companies want to attract the best so they have to give directors a certain level of pay and security. But this can be achieved without long, rolling contracts. She wants an initial three-year fixed-term contract, providing security and time for an executive to set objectives and act on them, and then a one-year rolling contract. A one-year rolling contract allows an executive time to find another job, she says, and companies will not enrage shareholders by paying out huge sums.

But even if a Cadbury 2 clarifies the role of non-executives in curbing excessive pay, getting companies to act on it is another matter. Golden goodbyes look set to be with us for some time yet.

LEGAL BRIEFS

US association for corporate lawyers comes to Brussels

The American Corporate Counsel Association, which represents lawyers working in commerce and industry, is to open a European office in Brussels.

The move reflects the growth in numbers of in-house lawyers in Europe, particularly in US companies. From its Washington DC headquarters, the association has built a membership of 9,600 in 10 years and developed a mainly educational role.

The association will use the Brussels office to pass information to members and will also develop specific European projects such as the preparation of a database on specialists working in European law firms.

Its first European conference will be in Paris on November 21 and 22. Subjects for discussion include corporate attorney-client relationships; organisation and development of in-house legal departments; and a session on the changing legal environment for mergers and acquisitions in central and eastern Europe. Further information from Michel Cloes in Brussels on 32 (53) 762 800 or by fax on Brussels 643 1458.

Gulf action

British sufferers from "Desert Storm Syndrome" have been allowed to join the class action brought by US service personnel against 30 manufacturers of chemical or biological weapons materials supplied to Iraq before the Gulf War.

A court in Houston, Texas, last week gave UK victims until November 22 to join the action which involves more than 1,000 US servicemen and women. Donn & Co, the UK solicitors co-ordinating the British claims, have written to more than 400 people advising them of their rights. The action alleges negligence and a breach of US product liability rules.

هكذا من الأصل

ARTS

Furtive families and flurries of activity

William Packer visits the Saatchi gallery

The extraordinary mass of contemporary art that Charles Saatchi has acquired over the past 20 years seems less a collection than an accumulation: for if Mr Saatchi sees a show by an artist who interests him, from Andy Warhol to Damien Hirst, he is inclined to buy the *lot*.

As we enter that astonishing warehouse space in Boundary Road, we know that whoever the artists are, we are going to see them represented in considerable strength. And if at times our expectations are all too depressingly confirmed, the surprise at others may be both real and rewarding. The present exhibition, of three British painters in mature career, makes the case in point.

Paula Rego is the star of the show and commands the first, largest and most daunting of the galleries. She carries this great space, so it seems, effortlessly. This is no retrospective, for the collection has nothing even of the early 1980s, when, from a more generalised imagery *of fantastical* and monstrous figures, the work was shifting towards particular narratives with characters no less monstrous, yet disconcertingly human. What we have are those narratives as they have been fully and splendidly established since the later 1980s, with their darkly ambiguous tales of remembered childhood and adolescence, fraught with burgeoning sexuality, fearful, secret and excited.

Little girls, Miss Rego reminds us, are not all sugar and spice and all things nice. Not by chance has she emerged as one of the great modern illustrators of fairy tales, gleefully unsqueamish in her reading of them. The Old Woman thrashes bottoms with a will; heads come off; tails come off, with a carving knife.

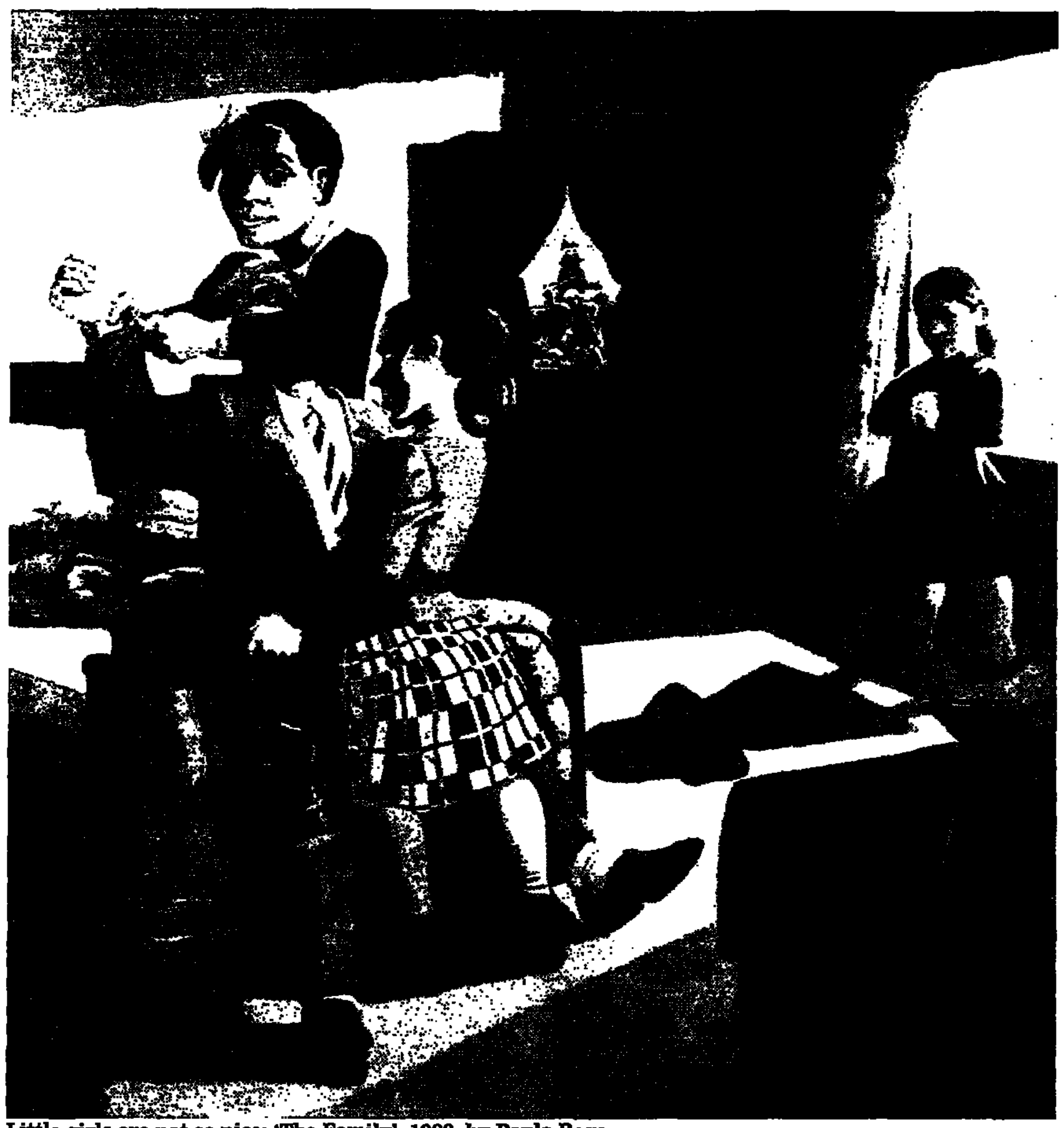
Hitherto, her actual painting has been more effective than precious, with a dry, gouache-like use of acrylic paint on paper that sometimes appears cruder and more uninflected than in fact it is. In her latest work, however, represented here by a single large pastel, she has returned directly to the model and to a method that is much richer and denser on the surface. These are her *Dog Women*, to be shown at Marlborough Fine Art later in the month.

John Murphy, who fills the two farther galleries, is represented only by work of the early 1980s and particularly by an extended suite of 12 panels that purport to engage with the infinities of space. The black pigment that supplies the field of heaven is laid on thick like butter, and then inlaid with white dots that might or might not be constellations. They serve, as do the specks of resin-dust in aquatint, paradoxically to intensify the optical sensation of the black. But do they also carry the symbolic charge of the image they adopt? The portentous clues engraved on their frames, "The Empty Night of Error", "The Long Night of Anxiety", "The Paradox of the Void" and so on, suggest that Murphy, too, feels they do not.

Five large paintings by Avis Newman have the side gallery to themselves, and again they date from the early 1980s. They are curious and at first unprepossessing, pinned unstretched to the wall, and discursive and wandering in the marks they carry – a flurry of activity here, some broader sweeps there, and blots, splodges and accretions anywhere. Is there a hint at an encompassing image, the profile of a reclining figure perhaps, or a distant and vestigial landscape? Or are we looking down on a map, or the earth from an aeroplane, or a battlefield? These flurries of activity could well be skirmishes.

But it is for us to make of them what we will. These are paintings, like Chinese landscapes or classical friezes, or the great mural schemes of the Renaissance, that draw us into themselves by their detail, that the detail may comprehend the whole. As we look, the roughness and informality fall away for the illusions they are. The surfaces declare themselves in all their abstract refinement, paint and mark and line so delicately and exquisitely worked. Her work is the great surprise and pleasure of the show.

Paula Rego, John Murphy and Avis Newman: Saatchi Gallery, 98a Boundary Road NW8, until February: Thursday to Saturday 12-6pm.



Little girls are not so nice: 'The Family', 1988, by Paula Rego

Theatre

The Ugly Man

Brad Fraser is currently as hot as pepperoni, with plays like *Unidentified Human Remains* and *Poor Superman* creating a buzz with both critics and audiences. This young Canadian writer deftly mixes at-the-edge scenarios involving gay sex, nudity, violence and betrayal, with cool insouciant dialogue and a dry wit. *The Ugly Man*, enjoying its London premiere at the Battersea Arts Centre, is minor Fraser, but still well worth a detour down Lavender Hill.

Fraser had the bright idea of taking his plot from one of the most gory of Jacobean melodramas, Middleton's *The Changeling*, and then encouraging his contemporary characters, who talk with the direct simplicity of comic strip balloons, and inhabit scenes as short and pointed as those in an Australian soap opera, to run riot.

The Co-Active Theatre Company has decided to locate the play in the equally decadent society of the southern states, or rather the fantasy South of Tennessee Williams, where every closet is crammed with skeletons and inside every virgin is a desperate whore. The result is a theatrical *Twin Peaks*, scary yet funny, grotesque yet childlike.

By some miracle the cast of CAT Factory deliver it straight, with not a trace of a nudge or a wink. Martin McDougall as Leslie, who plays a physically and mentally abused gay with a hair-lip, manages to speak the line "He's twice the man you'll ever be" with a quivering conviction that touches the soul.

The "man" concerned is the servant Forest, the scarred stranger, the Ugly Man, whose murderous, rapacious, undeviating villainy is motivated not by aimless violence but by revenge. This is the key role and Martin Malone exactly captures the physical stillness hiding a barely controlled menace.

Forest is impelled towards evil; for Veronica, (Stephanie Prince), the young virgin bride, evil is a drug. She quickly progresses from twisting her doomed mother Sabina (Louise Plowright) round her finger, to manipulating men: her naive fiance; her calculating lover; the besotted Forest, who will kill for a kiss.

Such Grand Guignol needs a realistic setting. Director Michael D'Cruze has located the action in Arizona for no obvious reason, but designer James Hendy has come up with an impressive barn like set, dominated by a giant wheel, handy for grinding out justice slow. The power of the production tells in the little touches, like Veronica's white dress streaked scarlet, unmentioned by the others, but shrieking testimony that she has sold her soul to the Devil.

The climax cuts across the controlled playing – it is easier to accept a body strewn stage when the characters are decked out as 16th century Spaniards – but *The Ugly Man* does nothing to dispel the belief that Fraser is one of the most exciting writers working in North America.

Antony Thorncroft

Music in London: our critics review a string quartet, two visiting orchestras and a home team conducted by a guest

Encore for quartet

Encores at string quartet concerts are not routine – they really mean the audience wants them. On Saturday evening, the Vellinger String Quartet might have chosen something a little less respectable and soberminded than the Adagio of Haydn's Opus 71 number two. *Still*, something restful was in order after the storms of Elgar's Quartet.

The Vellinger was only formed in 1991 and in three years it has made a very strong impression. It has recently released its first CD, which is entirely of Elgar's music, and earlier this year won first prize at the London International String Quartet Competition. It was well deserved, for among the abundance of excellent British quartets at the moment, the Vellinger is hardly bettered.

Its Wigmore programme on Saturday was an interesting choice – Bartók's *Fifth Quartet* was followed by Schubert's A minor Quartet, then Elgar after the interval. None of these works is really a rarity, yet none is exactly popular either. The unusual feature was the order, with the biggest challenge for the audience first and the easiest listen – though Schubert's work is far from lightweight – in the middle.

Hans Keller used to be patronising about quartets written by composers who were not string players, yet many of the great string quartets since Schubert's are by composers who were primarily pianists. Nobody has been more enterprising in the medium than Bartók, and his Fifth *Quartet* avoids may of the *obvious* qualities an "outsider" might settle on string instruments in favour of sonorities which, however daring, are never explosive, strings alone can make. It is hard to imagine this almost timeless though hugely expressive work given with more sharply focused passion or attention to colour. The Vellinger's ensemble and balance were immaculate, the rhythms as tight as a steel spring.

Schubert's Quartet in A minor is pervaded by a mysteriously veiled sadness which was enhanced by the Vellinger's precise restraint, though it was fiery enough when appropriate in the middle of the second movement. The players took the opening movement quite steadily, more mindful than is necessary, perhaps, of the "ma non troppo" that Schubert added after "Allegro".

The first violinist began the plaintive first theme almost without vibrato, then warmed later on – a lovely touch, and typical of those players' discriminating sense of detail. And unlike quite a few quartets, the Vellinger boasts a marvellously energetic viola-player, who brings as much attack and flexibility to his part as a violinist.

If Elgar's Quartet seemed rather disappointing, it was probably not the fault of the players. There is a magical passage in the slow movement, when three instruments wind down gently over a cello pedal before the restatement of the theme; but the theme itself might have been penned by one of Elgar's pale tors. Still, there was tremendous drive in the performance, as well as tender affection for the music's moments of *faded melancholy*.

Adrian Jack

Odessa and Jansons

Despite the world-class stature of the showcase orchestras of Moscow and Leningrad, musical life in the former USSR was more-or-less a closed book to western eyes and ears. Following the emancipation of the ex-Soviet republics, the first visit to the UK of the Ukraine's Odessa Philharmonic Orchestra, which reached the Barbican Centre in London on Friday, gave us a taste of just how musical life was faring in one of the more far-flung regions of the former Soviet empire.

If the recent history of the Odessa Philharmonic is typical, then provincial orchestras face a difficult but by no means insurmountable challenge. Four years ago its future appeared far from rosy, with regular defections of members of the west, an acute shortage of musical instruments and dwindling audiences. But since the appointment of the extrovert young American conductor, Hobart Earle, as its music director four years ago, its fortunes have changed rapidly and, whilst still beset with financial worries, morale is increasing and its repertoire expanding (though not always in the right direction, it seems, if the hollow rhetoric of Miroslav Skoryk's *Carpathian Concerto* – a folksy-realist throwback to *pre-glasnost* days – is typical), and the prospect of a new $30m concert hall is a not unrealisable possibility.

Inevitably the orchestra's sound is less polished than that of its more illustrious western counterparts. Ensemble is less than precisely coordinated, balance between the various sections is often sacrificed to sheer high spirits, and Earle's conducting is efficient rather than illuminating. Rachmaninov's Third Piano Concerto (with Arnoldo Cohen a solid, unimaginative soloist) was a mundane affair, lacking in poetry and glitter and starved of the opulent string sound it needs. Ironically, it was the standard Austro-German repertoire that found the orchestra at its best; a Brahms Second Symphony of white-hot intensity, tensile strength and unflagging sense of purpose.

★

The history of the Odessa Philharmonic shows just how easily we take our own orchestras' expertise for granted, but there was nothing routine about the London Philharmonic's concert at the Royal Festival Hall on Sunday evening: what seemed on paper standard early-20th-century fare – Debussy's *Nocturnes*, Ravel's G major Piano Concerto and Stravinsky's *Rite of Spring* – became an absorbing journey of renewal as its principal guest conductor Mariss Jansons galvanised his players into a sense of occasion and rediscovery.

Jansons is an out-and-out romantic, but only occasionally, as in his rather Tchaikovskian way with climaxes, did this jar with the cooler aesthetic of the three works on offer. The Debussy was no vacuous, impressionistic haze and the *Rite* became once again a frighteningly purgative experience, celebratory and cathartic. The Ravel *Concerto*, too, often such a slight work, took on real substance, not least because Pascal Rogé (replacing Krystian Zimerman) never allowed his wide experience of the work to lead him into complacency: though a touch restricted in colour in the first movement perhaps, he mesmerised in the slow movement, spinning out its extended cantilena with a sense of wonder, both surprising and inevitable.

Antony Bye

Sibelius' Shakespeare

In 1925, when he was 60, Sibelius composed some substantial scene-music for *The Tempest*. It was one of his last scores before his legendary tight-lipped silence, coming just after the Seventh Symphony and before *Tapiola*. You might expect the autumnal quality of late Sibelius to be apt for Shakespeare's last play, and so it is; but he interpreted his theatrical brief rather modestly, never pretending to fill out a conspectus of the whole piece. The metaphysical depths of *The Tempest* lie wholly in its language, and Sibelius was not writing an opera.

At the Barbican on Saturday, Neeme Järvi and the Gothenburg Symphony gave us a glowing account of the complete music. Hard to resist the familiar sense that native players (Sibelius was after all a *Swedish* Finn) can play such stuff, folk-based as it mostly is, with a radiant simplicity that nobody else can match! Richard Williams contrived to put everything properly in context with a team of ten actors, headed by Alec McCowen's Prospero, declaiming just enough of the play to let us know where we were from number to number. Some 34 of them, all told – though the whole performance lasted little more than 90 minutes.

It was good to hear, but one felt no great need to hear it all ever again. Evidently the masque-side of *The Tempest* was to be emphasised; generous time is allotted to the formal dances, entries and retreats, which are graciously folksy. The actual masque-within-the-play, however, must have been trimmed: we got only a splash of Iris's rainbow, a brightly urgent aria from Juno (Susan Gritton) and two perfunctory dances.

Elsewhere, Sibelius exploited the simple theatrical possibilities of the whole-tone scale, the augmented triad and the diminished-7th chord – none of them new in 1925, but rediscovered here with uncomplicated enthusiasm. In the solo songs for Ariel and Caliban (sometimes with chorus, and much more ingeniously wrought) Monica Groop spun an opulent, penetrating line, and Alan Opie displayed ripe comic character. Above all there were two extraordinary numbers: the Overture, in which a monstrous, eerily oppressive storm pre-echoes *Tapiola* with lashings of furious rain instead of a dry blizzard, and a jaggedly eloquent paragraph or two of baffled anguish for Prospero toward the end.

David Murray

Sponsored by Skandinaviska Enskilda Banken

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw Tonight: *Brahms'* German Requiem and Berlioz's Te Deum. Tomorrow, Thurs, Fri: Kurt Sanderling conducts Royal Concertgebouw Orchestra in works by *Mozart and Bruckner*, with violin soloist Viktor Liberman (Sanderling conducts a free lunchtime concert tomorrow, plus another series of concerts next week). Tomorrow (Kleine Zaal): Alexander Quartet plays string quartets by Beethoven, Peterson and Brahms. Sat evening, Sun afternoon: Hartmut Haenchen conducts Netherlands Philharmonic Orchestra and Chorus in symphonies by Szymanowski and Mahler. Sun morning: Nicholas Cleobury conducts Radio Symphony Orchestra in Bax and Elgar, with viola soloist Rivka Golani (24-hour information service *020-675 4411* ticket reservations 020-671 8345)
Muziektheater Tonight, Fri, next Mon: Netherlands Opera presents Louis Andriessen's new work Rosa, *with scenario and production by* Peter Greenaway (continues till Nov 28). Tomorrow, Thurs, Sat: Krisztina de Chatel dance group. Sun, next Tues: *Netherlands Dans Theater* (020-625 5455)

ANTWERP

de Vlaamse Opera Tomorrow, Fri, Sun afternoon, next Tues: Stefan Soltesz conducts Adolf Dresen's production of Yevgeny Onegin, with cast headed by Ned Barth, Galina Simkina, Christopher Ventris and Chris de Moor. (03-233 6685)

BASLE

Stadttheater Herbert Wernicke's new production of Carmen opens on Sat, *with Graciela Araya in the title* role. Repeated Nov 18, 21 and 27 (061-295 1133)

BRUSSELS

Palais des Beaux Arts Tonight (Royal Conservatory): Grumiaux Trio plays chamber music by Dvorak, Martinu, Schubert and Brahms. Tomorrow: Ivo Pogorelich is piano soloist with Belgian National Orchestra (02-507 8200)
Monnaie Philippe Boesmans' acclaimed 1993 opera Reigen, based on Schnitzler's play La *Ronde, is revived on Sat for six performances in Brussels, followed by three in Paris.* The production is by Luc Bondy, and the cast includes Solveig Kringelborn, Franz-Ferdinand *Nentwig* and Lucinda Childs (02-218 1211)

CHICAGO

MUSIC
Chicago Symphony Lawrence Foster conducts works by Lindroth, Beethoven and Enescu on Thurs, Fri afternoon and Sat, with piano soloist Jean-Bernard Pommier. Leonard Slatkin conducts the Saint Louis Symphony Orchestra on Fri evening in symphonies by Barber and Tchaikovsky (312-435 6666)
Lyric Opera This month's repertory consists of Rossini's Il barbiere di Siviglia, Giordano's Fedora, Strauss's Capriccio and Bernstein's Candide. Barbiere can be seen tonight and next Wed, with a cast headed by Frederica von Stade, Thomas Allen and Rockwell Blake. The final performance of Fedora, starring Mirella Freni, is on Fri. Capriccio opens on Sat, in a *production staged by John Cox and* conducted by Andrew Davis, with Felicity Lott as the Countess. Candide opens on Nov 26 and is directed by Harold Prince (312-332 2244)
THEATRE
● Angels in America: Tony Kushner's two-part epic is directed by Michael Mayer, with Jonathan Hadary as Roy Kohn (Royal George 312-988 9000)
● Laughter on the 23rd Floor: Neil Simon's newest comedy, about the golden days of live TV comedy, is currently enjoying an open-ended *run (Briar Street 312-348 4000)*
● The Winter's Tale: Shakespeare Repertory has the Chicago market cornered on productions of the Bard's works. Artistic director Barbara Gaines has a go at his late romance (Shakespeare Repertory 312-642 2273)

GENEVA

Grand Théâtre The Bartered Bride, staged by Elijah Moshinsky and conducted by Bohumil Gregor, can be seen on *Nov 10, 12, 15, 18 and* 21. The cast is headed by Valentin Prolat, Gwynne Geyer and Kristinn Sigmundsson (022-311 2311)
Victoria Hall Jean-François Heisser gives a piano recital on Thurs (022-311 2511)
Comédie Moscow's Vakhtangov Theatre, directed by Piotr Fomenko, presents Ostrovsky's The Guilty Innocents for a two-week run, beginning next Tues (022-320 5001)

THE HAGUE

Dr Anton Philipszaal Sat: Oliver Knussen conducts Hague *Philharmonic* Orchestra in works by Busoni, Schoenberg and Skryabin. Sun afternoon: Yan Pascal Tortelier conducts Radio Philharmonic Orchestra in Ravel, Falla, Debussy and Rimsky-Korsakov (070-360 9810)

ROTTERDAM

De Doelen Sat evening, Sun afternoon: *Claus Peter Flor conducts* Rotterdam Philharmonic Orchestra and Chorus in works by Mendelssohn. Mon: Frans Brüggen conducts Orchestra of the 18th *Century in Schubert and* Mendelssohn (010-217 1717)

VIENNA

● Riccardo Muti conducts Roberto de Simone's production of Cosi fan tutte tomorrow and Fri at Theater an der Wien. The cast includes Barbara Frittoli, Vesselina Kasarova, Cecilia Bartoli and Boje Skovhus. The State Opera *is closed for technical* alterations till Dec 14 (58885)
● Claudio Abbado conducts the Vienna Philharmonic's *subscription* concerts at the Musikverein on Fri and Sat afternoons and Sun morning, with a programme of Berg, Schubert and Hindemith. Giulini conducts the orchestra on Nov 18, 19 and 20. *José Carreras gives a* song recital on Dec 5 (505 8190)
● Vienna's contemporary music festival, Wien Modern, runs till Nov 28, with daily performances at various venues around the city. This year's featured composers are Morton Feldman, George Crumb, Helmut Lachenmann, Karl Schiske and Günter Kahowez (7124 6860)
● Giorgio Strehler directs a new Burgtheater production of Pirandello's The Mountain Giants, opening next Tues (514440)

WASHINGTON

KENNEDY CENTER
● This week's National Symphony concerts are conducted by Zdenek Macal. Tomorrow's programme consists of works by Rands, Mozart *and Beethoven, with piano soloist* Alexander Paley. On Thurs, Fri, Sat and next Tues, Alessandra Marc is soprano soloist in selections from Aida (202-467 4600)
● Washington Opera has just opened its season with Gounod's Faust (further performances Nov 10, 13, 15, 18, 21 and 26). The Ponnelle production of Le nozze di Figaro is revived on Sat with a cast headed by Jeffrey Black and Yvonne Kenny (202-467 4600)

THEATRE
● Artificial Jungle: the last play written *by the late Charles Ludlam is* a spoof on marriage in jeopardy. Till Dec 4 (Woolly Mammoth 202-393 3939)
● Stoppard trilogy: Washington Shakespeare Company presents The Real Inspector Hound, The 15-minute Hamlet and Dirty Linen from Nov 12 to Dec 17 (Gunston Theatre 703-418 4808)
● Someone Who'll Watch Over Me: Irish playwright Frank McGuinness's humorous and poignant drama about three Beirut *hostages. Opens tomorrow (Studio* Theater 202-332 3300)
● Two Trains Running: August Wilson's Pulitzer Prize-winning play takes place in 1969 in Pittsburgh during the civil rights era. Opens on Thurs (Center Stage 410-685 3200)
● All in the Timing: the recent off-Broadway hit is a series of one-act comedies dealing with various aspects of contemporary life. Opens tomorrow (Roundhouse Theater 301-933 1644)

ZURICH

Opernhaus Tonight, Thurs, Sun afternoon: choreographies by Ek, Bienert and Van Manen. Tomorrow, Fri: Serge Baudo conducts revival of Bernard Uzan's production of Gounod's *Roméo et Juliette*, with Francisco Araiza and Isabelle Rey. Sat: La Cenerentola with Cecilia Bartoli. Sun evening: Die Zauberflöte (01-262 0909)
Tonhalle *Thurs: Edmond de Stoutz* conducts Zurich Chamber Orchestra in works by Mozart, Zbinden, Gluck and Grétry. Fri: Tonhalle Orchestra plays works by Bruch and Arutunjan. *Sun: Miklos Perenyi cello recital* (01-261 1600)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

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Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Twisting and turning

John Lloyd on the fitful progress of Russian economic reform

The Russian government and its economic reform programme are swinging on a rope: the fate of neither can be pronounced with certainty.

For the past year, Yeltsin administration policy has resembled a collection of "this way" signs pointing in all directions. It is not simply the president who is to blame for this, as he thrashes this way and that seeking stability and support. Also to blame are the senior state officials, who oscillate between moves towards the market and concessions to those who fear reform.

Coping with these two contradictory imperatives is the essence of Russian governance, but it makes for a disjointed progress, always threatened with reversal.

Yet much of this past year had been trumpeted as a success. The exit from the Chernomyrdin cabinet in January of Mr Yegor Gaidar and Mr Boris Fyodorov, the two men most associated with reform, suggested something was amiss. But Mr Chernomyrdin managed to hold to a policy that brought inflation down from over 20 per cent a month at the beginning of the year to 4 per cent in August.

However, some Rbs13,000bn were pumped into the system over the summer to allay the demands of the former state industries and agricultural lobbies. This brought the inevitable rise in inflation, up to 15 per cent last month (though now said to be falling). It also weakened the rouble. On "Black Tuesday" – October 11 – heavy selling drove the rouble down by more than 20 per cent, to Rbs4,000 to the dollar. It only recovered with central bank intervention.

This appears to have shocked not just the markets and the population, but also President Boris Yeltsin. A rift – denied, but evident – opened up between him and his prime minister. The president ordered a commission of Russia's security council, made up of intelligence chiefs and generals, to look into the crash. Its conclusions have not been published but have been leaked.

Not surprisingly, such a committee named guilty men. They included the head of the central bank, Mr Victor Gerashchenko, and the acting minister of finance, Mr Sergei Dubinin, both pushed into resignation by Mr Yeltsin. They included Mr Alexander Shokhin, deputy prime minister and minister for the economy, who failed to "co-ordinate" the work of the departments under his nominal charge.

They included a group of large banks, including Most, Menatep, Inkombank, Imperial, Alfa, International Moscow Bank and others, mostly in the top 20 of the new finance houses and all desperate for respectability. They were charged, according to the daily Sevodnya, with "profiteering" on the money markets.

Last week, Mr Shokhin, the longest-serving cabinet member and a solid if not radical reformer, felt a cold wind. The most senior minister blamed, he learned that the nomination of the new finance minister – Mr Vladimir Panskov – was being discussed without his participation. He went, on Thursday, to Mr Chernomyrdin to demand a say. Mr Chernomyrdin said he did not know Mr Panskov either.

On Friday, Mr Panskov was appointed. Mr Shokhin's resignation was accepted by the president on Sunday.

This humiliation for Mr Shokhin was also a blow for Mr Chernomyrdin. Last month, a conservative agriculture minister, Alexander Nazarchuk, was foisted on the prime minister. He also lost a close ally in Mr Gerashchenko, the central bank governor, and a respected colleague in Mr Dubinin, the acting finance minister.

Anatoly Chubais (left), a clever reformer named as first deputy premier, and Alexander Shokhin, who resigned on Sunday

On Saturday, Mr Victor Ilyushin, the president's closest aide, said his boss was "seriously concerned over the work of the government", but denied a rift between head of state and government.

The constitution underpins a strong presidency, and makes the government dependent on its pleasure. Mr Chernomyrdin, unlike Mr Shokhin, has decided to march on. But how much longer can his government survive this kind of treatment?

That will depend on the progress of economic reform. The cabinet's credibility and the future of reform are wholly intertwined. Mr Chernomyrdin's government has committed itself to a rigorous budget, which eschews the taking of any credits from the central bank. Instead, the government will depend on the sale of Treasury Bills and on finance of up to $16bn from the International Monetary Fund and the World Bank.

This will give the IMF a much larger say than hitherto in the budget's design. The target inflation rate – 1 per cent a month in a year's time – is already agreed. The size of the budget deficit is not. The IMF target is 6 per cent of GNP, the Russian government's 8 per cent. The rate at which the rouble should be pegged to the dollar, if it can be stabilised, has still to be decided. But these are tactical matters. The principles are accepted.

But such austerity is bitterly opposed by the president's officials, led by Mr Alexander Livshits, one of his economic advisers. Significantly the deputy head of Mr Yeltsin's budget department, also opposed to the government's budget proposals, was Mr Panskov, now at Finance.

Mr Panskov was quoted by the government press service as saying on Friday that he supported the government's course. But, according to ministry officials, he also said that "much work remains to be done" on the budget. Mr Panskov may have been signalling an intention to rethink the basic strategy of the budget, as parliament continues to rage against it.

But reform, staggering on Friday, was walking tall again on Saturday, when Mr Anatoly Chubais was named as a first deputy premier in charge of economy and finance.

Mr Chubais is Mr Privatisation: a stubborn, clever man of only 39. Brought into government by Mr Gaidar, he has in the past two years overseen the largest and most rapid privatisation programme in the world. Of his reform credentials there is no doubt. He said on Saturday that he – he, not Mr Yeltsin – would soon be naming a new economics minister and a new privatisation chief.

If there is an unambiguous sign from this mix of events, it is that Mr Yeltsin, still able to pull the levers of state, is leaning heavily over Mr Chernomyrdin's crucial budget, but is not yet prepared to squash it.

A "softer" variant would starve the government of international financial aid and leave it caught in the toils of high-to-hyper inflation.

Mr Yeltsin may be fretful, and even threatening, over the budget, but he has yet to come up with a better idea.

Joe Rogaly

The competency count

Several competent ministers serve in Mr John Major's cabinet. One or two would be classed in any administration as, shall we say, not bad. We should acknowledge these hidden pearls. Better that than focus yet again on dispiriting accounts of internal squabbles in the Conservative party, or zoom in once more on tales of malfeasance.

From time to time those of us whose task it is to hurl brickbats and squashy tomatoes at the administration should take a breather, contemplate the half of the glass that is full, consider the parts of the egg that are good, temper outrage with a sense of proportion, savour the unfamiliar experience of recognising that a surprising number of departments of state are properly managed.

Two such are the foreign office and the Treasury. The weight added to Mr Major's team by the presence within it of Mr Douglas Hurd will be measured by the loss felt when he departs. I am not about to predict the foreign secretary's resignation, either imminently or, as is widely supposed, next July. Others have made such a forecast in the midst of each of the last four summers. Let us take him to be there until we learn otherwise. We are well-served while he is in place.

This is not to say that Mr Hurd is without flaw. I do not agree with every detail of his policies, least of all in Bosnia, but then I do not have responsibility for soldiers' lives. Again, he and the chancellor have initialled the prime minister's intra-party concordat on the European Union. This sticking-plaster agreement owes more to fear of Tory Eurosceptics than it does to adherence to heart-of-Europe principles. Thus it may be said that Mr Hurd has contributed more gravitas than strategic vision to the government's handling of European affairs. Yet, warts and all, the foreign secretary is an undoubted asset.

So is the chancellor. Mr Kenneth Clarke has had the humility, and the sense, to place monetary policy under the watchful eye of the governor of the Bank of England. By publishing the minutes of their meetings he has given Mr Eddie George the quasi-independent power to move interest rates. It is now virtually impossible for the prime minister to override advice given by the chancellor and the governor in combination.

A surprising number of departments of state are properly managed. Two such are the foreign office and the Treasury

As to fiscal policy, Mr Clarke's control over public spending is tighter than was Mr Major's when the latter was chancellor, while Mr Clarke's taxes are even higher than were Mr Norman Lamont's. The Clarke strategy is more likely than any other to restore public confidence in the Conservatives as the party of "sound money". It just might put the chancellor in a position to cut taxes before the next election; failing that he can announce reductions that he proposes to phase in after the voting is over.

A perhaps more surprising candidate for our necessarily brief order-of-merit list is Mr Peter Lilley. He is famous for being a right-winger, a Eurosceptic who spoke foolishly about foreigners at the 1993 party conference and a purveyor of embarrassingly bad verse. Yet Mr Lilley is a remarkably successful departmental minister. He acknowledges that social security, for which he is responsible, is here to stay and seeks merely to ensure that its cost – some £85bn a year – does not grow more rapidly than the national income. He has made a series of changes the more radical of which will not take effect until well into the next century.

Thus invalidity benefit, the cost of which was growing rapidly, has been replaced by the tightly-defined incapacity benefit, and statutory sick pay by an obligation on employers. Pensions legislation due to be announced in the Queen's speech next week will equalise the pensionable age for men and women at 65, although the full effect will not be felt for a quarter of a century. The new Job Seekers' allowance, an item in the same speech, moves Britain a step further towards US-style workfare.

Whatever Labour may say about harshness, these measures are in the spirit of the recent report of the left's social justice commission. No future government is likely to reverse them. Mr Lilley's calculation is that little will be saved immediately, but that the social security budget will be reduced by the equivalent of some £3bn in today's money by the year 2000 and four times that by 2050. The social security secretary does not radiate pure sunshine. He has not discovered how to reprogram the troubled child support agency. His promised legislation on rights for the disabled, a substitute for a private bill the government infamously killed off, has yet to appear. Yet his principal sins are of omission: what he has done has been done well.

The same may be said of the new secretary for education, Mrs Gillian Shephard, although she has not been long enough in the post for a proper assessment to be made. Her task is to calm the teachers down, following six turbulent years during which the reforms envisaged in the 1988 education act have met with increasingly stiff resistance from the teaching unions.

She has made a good start. A former schools inspector and local education committee chairman, Mrs Shephard is an engaging, down-to-earth minister who deploys charm and sympathy with practised ease.

Everything she has said so far has been positive. She has accepted, in full, Sir Ron Dearing's revision of the national curriculum, spoken of "specialist" rather than "selective" schools, cancelled her predecessor's plans to bombard parents with government propaganda leaflets, set in train a review of higher education, and demanded that children be taught the correct use of written and spoken English.

I suspect that she is less than wholly enthusiastic about state schools opting out from local authority control. Her barrage of common-sense is now being trained on the National Union of Teachers, which has yet to call off its obstruction of testing in schools.

Finally, note Sir Patrick Mayhew, a successful secretary for Northern Ireland. His strategy was determined for him by others, notably Mr Major and his Irish counterpart, but that does not detract from Sir Patrick's own record. He was there when the shooting stopped. He has not botched his job. He deserves the credit.

There is no space for the rest of the government. That is not to be taken as an indictment of all of it. Perish the thought.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

UK bankers right to worry about directive

From Mr Roger Fink.

Sir, I was interested to read Norma Cohen's article, "Weighty tome sends investment banks reeling" (November 2), on the effects of the EU's capital adequacy directive and, in particular, bankers' fears that French and German regulators will not enforce the rules as rigorously as do those in the UK. An interesting comparison is the rigorous way the UK authorities have brought the money-laundering directive into force and, in particular, its application to solicitors, in contrast to other member states.

The principal aim of the money-laundering directive was to ensure that "credit and financial institutions" introduced administrative procedures for the purpose of identifying and preventing money laundering. Member states were also required to extend the provisions of the directive to professions and other businesses which engage in activities "particularly likely" to be used for money-laundering purposes.

The relevant UK legislation, the 1993 Money Laundering Regulations, came into force in April this year. As well as applying to financial institutions, the regulations cover professions such as solicitors, to the extent that they can, on "investment business" (as defined). Solicitors now have to introduce and maintain time-consuming administrative procedures, including obtaining identity evidence of new clients, training employees in the law of and how to detect money-laundering and appointing a "money-laundering officer".

This is in contrast with the way the directive has been brought into force in other member states. In some of them, no legislation has yet been enacted. In other member states, including France and Germany, legislation has been brought into force but it is nowhere near as rigorous as the UK regulations. In neither of those countries is the legal profession subject to the full rigours of the directive – in Germany only to the extent that lawyers receive cash payments over a certain amount and in France not at all.

I believe, therefore, that the bankers' fears could prove to be well founded.

Roger Fink,
Biddle & Co, 1 Gresham Street,
London EC2V 7BU

Less than ecstatic

From Mrs Barbara Coultas.

Sir, Your travel writer, Kate Bevan, tells us in her article "A sharp eye on the clouds" (November 5/6) that Santa Barbara is "blessed with a wonderful beach".

Our experience in July 1992 left my family rather less ecstatic. The beach was dirty, the sea smelt of ammonia (perhaps as a result of the oil derricks dotted across the horizon) and the only other sun-worshippers were a handful of winos slumped under the trees. While my husband and son braved the hazards for a short dip, my daughter and I were not prepared to take the risk.

I can only presume that the town's cleansing department has performed a miracle in the last two years.

Barbara Coultas,
20 Tewit Well Avenue,
Harrogate,
North Yorkshire, HG2 8AP

Project highlights dearth of start-up finance

From Mr Warren S Lister.

Sir, Your article, "Finance sought for driverless bus network" (November 2), highlights the problem of the "start-up gap" faced by many entrepreneurs involved in large projects. Companies and banks are reluctant to face the risks inherent in providing the often quite modest front-end finance needed to validate and establish projects to a level that encourages them to provide backing and then construction finance.

The response, "I'll put in money if someone else will first", is all too familiar to those seeking start-up finance.

Central government has shown a commendable change of emphasis in looking for ways other than building yet more roads to reduce traffic congestion and environmental pollution, and has shown a desire to encourage the private sector to finance large infrastructure projects.

So far, central government funds have been fed in large chunks to just a handful of city transit schemes – and good luck to them. However, the money needed to bridge the start-up gaps facing many transit scheme promoters is often very modest – less than 2 per cent of a project's total cost – but the potential rewards are great.

Central government should should spread the limited resources more widely and provide much lower levels of funding to many more projects. It is time the government risked a little to gain a lot.

Warren S Lister,
project leader,
Guildford Rapid Transit,
Listavia International Consultants,
13 Woodmancourt,
Mark Way,
Godalming,
Surrey GU7 2BT

No effect on basic rates

From Mr Simon Sapper.

Sir, Your article on innovative and performance related pay experiments in BT ("Telecoms union supports pay test", October 26) may cause some confusion among your readers in one key respect: I should make it clear that the remuneration policy relates only to sales commission on top of a guaranteed 100 per cent of existing basic pay rates. There is therefore no substitution of basic pay for any element of performance related pay in the trial you refer to.

The National Communications Union and BT have worked extremely closely on the development of this project in the Nottingham/Derby area which is designed to improve operational efficiency with a comprehensive package of measures involving attendance patterns, multi-skilling and remuneration.

We welcome an opportunity to clarify this as we work towards a successful outcome of this exercise.

Simon Sapper,
assistant secretary,
National Communications Union,
Greystoke House,
150 Brunswick Road,
Ealing, London W5 1AW

Nice work share for those EU commissioners

From Mr Roger Saoul.

Sir, The photograph of Jacques Santer, the EC president, and his commissioners on your front page (October 31) reminded me of the scene at the local Jobcentre which I have to visit every fortnight – too many people chasing too few jobs.

It is comforting to know that the commissioners have the opportunity to work share, and that their rates of remuneration are not affected.

Roger Saoul,
78 West Hill,
London SW15 2UJ

Opposition to PO privatisation is not wilful misrepresentation

From Mr David Erdman.

Sir, The editorial, "Avoiding postal fudge" (November 3), was sufficiently arrogant and ill-informed to merit comment.

The claim that opposition to postal privatisation is motivated mostly by ignorance or wilful misrepresentation is the view from an ivory tower. Actually, the public is afraid of seeing another service damaged in the same way that health, education and transport have been, by a combination of increased cost and decreased availability.

As regards misrepresentation, the government's case has certainly been well aired, not least by your newspaper, but the views against privatisation have hardly been reported at all.

More than half of all main post offices have already been quietly privatised through franchising to retail outlets. In the process many people have lost the benefits deriving from continuous employment. Their pension and pay has been reduced. It is not at all clear that the European Union's Acquired Rights Directive – known as TUPE, and which protects the terms and conditions of public-sector employees whose contracts are transferred to the private sector – have been observed in the process.

The closure of post offices in town high streets has had a detrimental effect on the viability of remaining shops in much the same way that opening superstores has.

Many post offices have been sited in superstores and other outlets not easily accessible to pensioners. The advice offered to them has been to open bank accounts, which some can neither afford nor understand.

The process of franchising is continuing today despite the resounding vote of no confidence given to privatisation by the public through their elected representatives.

David Erdman,
secretary,
Campaign to Save the main Saffron Walden Post Office,
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FINANCIAL TIMES

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Tuesday November 8 1994

Three weddings and a puzzle

Joint ventures between electronics companies are proliferating almost as fast as the varieties of services and equipment they sell. What is going on?

Yesterday Siemens of Germany announced that it was teaming up with the US-based Scientific *Atlanta* and *Sun Microsystems* to develop and market technology for distributing telephone and information services. The US telecommunications industry is also humming with talk that AT&T and the UK's Cable & Wireless will try together to create a national US network for mobile telephony.

In a *further round of the uneasy* three-year partnership between IBM and Apple Computer, the two companies yesterday at last announced plans for a common personal computer design.

The impetus for such partnerships comes from the multimedia revolution: the explosion in the range of services offered to households and businesses, from information to entertainment. This has been made possible by telecommunications deregulation in many industrialised countries. But it is also driven by technological change: the increase in the carrying capacity of channels, and the emergence of new computer chips able to process much greater volumes of data.

In this maelstrom, companies are battling to get their version of equipment established as the standard with consumers and with designers of peripheral equipment. The key to making money in the high-margin segments of electronics (leaving aside the commodity businesses such as chip manufacture) has always been the ownership of intellectual property, whether the design of hardware or software, when that configuration is adopted as the standard.

Equipment standards

In Siemens' case, it hopes that its US partnerships will set the standard for the equipment now being bought by cable operators and telephone companies to deliver the new multi-media services.

The mooted link-up between AT&T and C&W has its eye on the new federal licences to be allocated by the Federal Communications Commission for "personal communications services" such as mobile telephony. Such a partnership would be able to build a network offering a common brand image and "seamless" communications from region to region out of what would otherwise be hundreds of small firms operating with different equipment.

Such hopes are clearly better pursued through joint ventures than through takeovers, even where regulation permits. Speed is essential in securing competitive advantage in such conditions, and the products concerned are often only part of a company's range, hardly warranting a full corporate merger. *But such joint ventures* need not be anti-competitive. They may instead prove the only way through which an existing industry standard can be challenged and bettered.

Industry dominance

Such is the case with the alliance between IBM and Apple, formed to reinvent the personal computer and to overthrow the industry dominance of Intel and Microsoft. The two have had every incentive to make the relationship work: the window for attacking Intel-Microsoft is wider than it has been for years, as the Intel chip design faces more competition, and the next version of Windows will not be launched until well into 1995.

But competitive breakthrough has proved elusive so far. Even if IBM and Apple announce development of compatible hardware, they have not yet produced common software which would let programmes run on computers designed by either company.

The reasons for the tensions are illuminating. Each side has believed that it has the better ideas, both on hardware and software, and has been unwilling to *surrender independent research* and development, let alone marketing. It is an uncomfortable portrait of a marriage in which rivalry has triumphed over common interest.

They may regret it. The opportunities available in electronics worldwide to secure a competitive lead are unlikely to reoccur for years. Those companies that form well-judged partnerships, and have the cultural flexibility to enable them to succeed, are likely to prove the winners.

A Budget for employment

Westminster is awash with proposals to reform the tax and benefit system with a view to fostering employment. Owing, in part, to the separation of the two policy areas, tax reforms aimed at raising work incentives in the 1980s tended to neglect the large disincentives to work faced by those at the threshold of the tax and benefit systems. The second unified Budget provides Mr Clarke with an opportunity to start redressing the balance.

By common consent, the welfare state is in need of fundamental reform. Reforms of the tax and benefit system have not kept pace with changes in the labour market. Approximately a tenth of the population is now dependent on means-tested state benefits, twice as many as in 1979. In the past, economic recovery would have lowered this figure considerably. But fewer of the unemployed are being offered the full-time, relatively secure jobs for which the benefit system was created. As a consequence, the relationship between levels of welfare dependency and the economic cycle shows signs of breaking down.

Some of the changes in the structure of employment may have been encouraged by the tax and benefit system itself. The National Insurance system, for example, probably explains some *of the rise in* the numbers working very few hours. By and large, however, evidence of similar trends in other countries indicates that it is the welfare state that must bend to labour market change, not the other way round.

Reforms proposed

There is no shortage of reform proposals for the Chancellor to choose from. The Labour Party's Social Justice Commission, the Trades Union Congress and the Confederation of British Industry have all recently outlined what they would like him to do in this area. Mr Clarke could usefully draw ideas from all three, but the visionary sweep of such proposals should not distract *his attention* from relatively modest reforms, which would still lessen the system's worst flaws.

The Chancellor should focus his energy and resources on two groups whose difficulties in the labour market are currently most acute: families with children and the long-term unemployed. Family Credit was introduced to eliminate the possibility that taking work would leave anyone with children worse off. In practice, however, child care and other up-front costs associated with taking a job, coupled with the withdrawal of housing and other benefits, ensure that this kind of "unemployment trap" is still a problem for unemployed people with children.

The new childcare costs "disregard" within family credit, announced in the last Budget, will go part of the way to improving the situation. But further help is needed to ensure that people can bridge the gap between leaving income support and beginning to receive family credit. At present, around a third of *family credit* claimants receive "fast-track" approval for their application.

Guaranteed income

The Chancellor should make a commitment that no-one will experience any loss of income – however short-term – by taking a job. The best way to achieve this would be to institute a guaranteed 1-2 week overlapping payment of income support after a person starts work. This would have the added advantage of helping to meet one-off expenses related to going back to work.

The biggest obstacle to taking a job for the long-term unemployed is not the structure of the benefit system, but rather employer preferences. Mr Clarke should lower national insurance contributions for companies employing the long-term unemployed. If necessary, a well-tailored scheme could be funded by raising the upper earnings limit on National Insurance, which already causes an unjustifiable dip in marginal income tax rates before people reach the higher rate band of income tax.

Mr Clarke is fortunate in having *an opportunity to combine the* politically fashionable with the worthwhile. Yet whatever aspect of the problem Mr Clarke decides to tackle, one rule must be obeyed. Nothing impairs the efficient functioning of the benefit and tax system more than its administrative complexity. Job centres and benefit offices are graveyards for wheezes born of past ministerial publicity-seeking. Mr Clarke must not add to the list.

Volkswagen is about to reach agreement with the Czech government over the future of Skoda, says **Kevin Done**

Harmony under the bonnet

Peace is about to be declared between Volkswagen and the Czech government ending 14 months of wrangling over the future of Skoda, the Czech carmaker.

Volkswagen, Europe's largest carmaker, has scaled back the ambitious plans to modernise Skoda that initially helped it beat Renault of France to win the Czech government's approval for the takeover in 1991.

The revised plans should guarantee the future of the Czech carmaker, while allowing the German company to introduce production arrangements more radical than *anything it has so far attempted at* its plants in Germany.

The new harmony between Skoda's shareholders was on show two weeks ago when Czech ministers and government officials gathered with the company's top management on Prague's Charles bridge to christen the Felicia, the first new Skoda to be launched since VW took over management control in early 1991. President Vaclav Havel took a private test drive.

Last year, Mr Ferdinand Piëch, VW's management board chairman, had stunned his partners in Prague, by pulling out of a prestige DM1.4bn (£570m) project finance facility for *Skoda. Negotiated over many* months with the International Finance Corporation and the European Bank for Reconstruction and Development, the loan was abandoned only hours before it was due to be signed in London.

VW's withdrawal, made without prior warning to the Czech *government, sent shockwaves through* Prague and soured a relationship that had begun with high hopes.

It has taken a long time to rebuild trust, but lawyers for the two sides are putting the final touches this month to crucial amendments to the original Skoda acquisition contract.

A new appendix to the agreement is aimed at stilling Czech government fears about the level of Volkswagen's commitment to Skoda, the showpiece of the Czech privatisation programme, fears that had led to rumours that Prague might drop VW and seek a new partner.

Due to be signed in the next couple of weeks, the new agreement will finally clear the way for VW to boost its shareholding in Skoda by the end of December from the 31 per cent acquired in 1991 to a majority 50.5 per cent.

VW will inject an additional DM350m of new equity into Skoda and make a further DM40m *payment to the Czech government.* Its stake will rise to 70 per cent by the end of 1995 in return for a total investment of DM1.4bn – DM1.2bn in new equity capital for Skoda and DM200m paid to the Czech government.

Prague has had much to come to terms with in the revised deal:

● *The capital investment planned* for Skoda until the end of the decade has been cut to about DM3.7bn from the original estimate of DM9.5bn.

● The target of a doubling of production capacity to 390,000 cars a year has been reduced to less than 350,000.

● *A costly new engine plant has* been dropped from the programme.

VW argues, however, that the revision of its plans for Skoda will enable the Czech carmaker to avoid the costly disasters that have beset Seat, the group's Spanish subsidiary, pushed to the edge of financial collapse last year by the combina*tion of recession and the* over-ambitious investments agreed in the late 1980s.

In 1990, VW had just begun a 10-year, Pta607bn (£3.4bn) investment programme at Seat, and presented its spending on the Spanish operation to the Czech government as a model for Skoda.

Today it is clear that the Spanish model was flawed. Huge losses at Seat last year helped to pull the whole of the VW group deep into the red. Instead of a model, Seat is now cited by VW as a warning of the perils of profligate over-investment.

"We always mentioned how successful Seat was. We organised many trips to Spain to show the Czechs the brand-new plant, how well-equipped it was with a lot of automation. Today we know that labour rates are very low in the Czech Republic. It is much more effective not to automate all the processes," says Mr Volkhard Köhler, the Skoda vice-chairman brought in by VW in 1991.

Volkswagen is hardly the same company today as the one that planned the development of Seat and then announced a string of visionary projects for eastern *Europe in 1990 and 1991 as the* borders of the eastern bloc suddenly opened to the west.

It plunged into record losses of DM1.94bn in 1993. Virtually its entire top management has been replaced. It is undergoing a corporate revolution, as it seeks to escape from the unenviable position as *Europe's high-cost car producer.*

The robust regime initiated by Mr Piëch at the beginning of 1993 set out to cut costs to the bone. The gospel now is lean production, lean engineering and lean investment. The Skoda project has been subjected by Mr Piëch to the same ruthless review as the rest of the group's operations, with little regard to the sensitivities of his partners.

"Too high investment can kill our company," warns Mr Köhler.

"In 1990 all views were too optimistic," he adds. "There were buoyant markets in the east, today we know there is no purchasing power. When the Iron Curtain came down there were ideas that you could speed up development, but today it is clear that that cannot happen."

Volkswagen is pushing ahead, however, with the development of a second Skoda car range to be launched in late 1996, which is aimed at increasing Skoda sales *worldwide above 300,000 a year by* the late 1990s from less than 200,000 this year.

It will maintain and further develop the existing 1.3 litre Skoda engine family – now regarded as one of the company's biggest cost advantages – and is looking to develop a version for use elsewhere *in other group cars, possibly at* Seat.

It is building a new paint plant at the main Skoda facility at Mlada Boleslav with a capacity for processing 1,300 cars a day or 307,000 cars a year based on three-shift, round the clock working. It is also building an assembly plant for the *second range, a large family car to* be based on the chassis platform of the next generation VW Golf.

The initial capacity for the new car will be for 70,000 a year, but this could be increased later to 140,000 a year, if there is sufficient demand, says Mr Gerald Weber, Skoda's engineering director. "We have to be careful. We have the lesson of Seat, where the investment was too much. We have to avoid that."

The guiding principle for VW as it has revised its plans for the Czech Republic has been to ensure that Skoda does not forfeit its cost advantages.

According to Mr Piëch "the 'low-cost' argument *is of particular significance due to the fact that the* vehicles of the Skoda marque compete in the extremely competitive segment of the low-cost family car. In this segment the battle for the customer is fought decisively on prices."

Mr Piëch argues that the "image *disadvantage" of Skoda – in the UK* it is the butt of endless jokes – coupled with a low level of familiarity elsewhere in west Europe, as well as an aggressive price battle in world car markets, "will put the brakes on a swifter and profitable growth of the marque".

The labour cost advantage for *Skoda in the Czech Republic is* enormous with total labour costs at around one tenth of the level in Germany, but Mr Köhler accepts that this advantage will gradually be eroded.

A deal expected this month will clear the way for VW to boost its holding in Skoda to 50.5 per cent

"We have to streamline our production processes to be able to offer *cars at a very low price. Wages will* go up in the Czech Republic. We must find production processes that work to our advantage in the future, and that means the integration of our suppliers."

The development of a more efficient Czech automotive component industry was a key element in the *original VW acquisition of Skoda,* and its renewed commitment to this programme will be included in the new agreement with the Czech government.

Since VW moved into Skoda nearly four years ago, around 40 joint venture components operations have been established, *which already supply 44 per cent of* Skoda's purchases of materials. A further 6.5 per cent of purchases come from greenfield site operations.

Around 80 per cent of Skoda's total purchases are made in the Czech Republic and Slovakia and more than half of total purchases *are already coming from suppliers* with access to western technology.

VW is now seeking to break new ground at Skoda by establishing supplier operations directly inside the car plant, moving a step head even of the Japanese model of having suppliers grouped in close proximity to the plant.

Three suppliers – Lucas, Johnson Controls and Pelzer – are already working inside the Skoda plant producing rear axles, seats and carpets. Mr Köhler says the number will soon rise to ten to include items such as bumpers, dashboards, instruments and exhaust systems.

"Labour costs will rise over time, so we must have a lean structure from the outset." The company claims that productivity has improved by 37 per cent in the last three years.

Despite the labour cost advantage, *the Skoda workforce is already* falling, from more than 17,000 last year to under 16,000 in 1995. The Cuban, Vietnamese and prisoner workers of the Communist era are long gone, and Skoda has also cut the number of Polish workers to 140 from 700 earlier this year.

It also plans to transfer some workers from its own payroll to its suppliers'. Unlike in Germany, where car workers' wages are significantly higher than rates paid at components suppliers, there is little difference in the Czech Republic. It is therefore easier to transfer workers and create a flexibility that Mr Köhler hopes will be a crucial source of future competitiveness.

While VW has been tightening its manufacturing and product development plans for Skoda, it has been buffeted by dramatic fluctuations in the fortunes of Skoda's main markets, which have forced the Czech carmaker to scour the world for *new outlets.*

In 1991 Skoda sold 29,600 cars in Yugoslavia; this year sales to that area have fallen to around 6,000. Sales in Poland have plunged from 38,000 in 1991 to 3,800 in the face of heavy import duties. In Turkey, they have fallen from 22,000 last year to close to 4,000 in 1994.

According to Mr Detlev Schmidt, Skoda sales director, the sales potential of 90,000 a year in these three markets from 1991 to 1993 has fallen to around 14,000 this year.

"Skoda must succeed in opening new markets and finding new opportunities, because there is such vulnerability in central and eastern Europe. It is *nothing* to do with product weakness or price but with local market conditions."

Sales are rising in west Europe, with registrations up by 10.6 per cent in the first 9 months of this year. Skoda is also breaking into new markets from Syria to Egypt, Jordan, Venezuela, China and North Korea. The number of markets in which Skoda cars are sold will have been raised from 20 in 1991 to 57 by the end of the year, and around 36 additional markets are under study.

However, it has had to start virtually *from scratch in creating* a western-style sales and marketing network, having inherited state-selling organisations of limited commercial skills in 1991.

"It was a delivery and allocation mentality. The factory just produced and was surprised when someone came and said it must meet *customer expectations. It said* the car is there, that's the colour, the customer can take it or leave it," says Mr Schmidt.

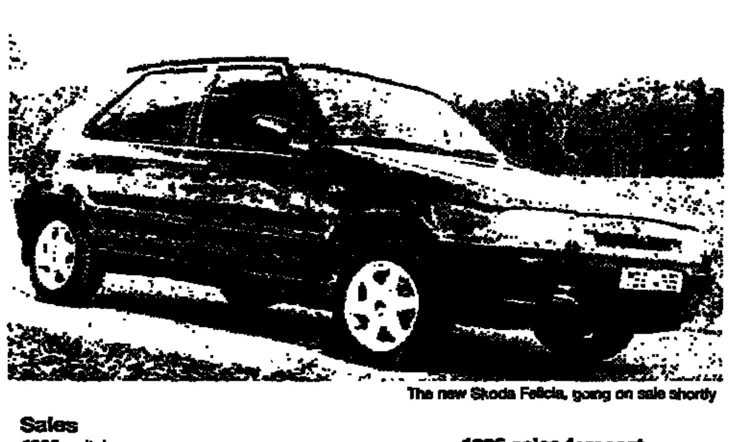
Skoda has ambitious plans for the expansion of its worldwide sales and distribution network. The number of dealerships worldwide had already been raised from 1,522 at the end of 1991 to 2,100 by the end of 1993, and this is set to reach 2,500 by the end of this year and 4,000 by the end of the decade.

Helped by the launch of the Felicia range, which has just been unveiled as the successor to the Favorit and which will go on sale in the Czech Republic next month, Skoda sales are forecast to rise to 205,000 in 1995 including sales of 76,000 in west Europe and 67,000 in the domestic Czech market.

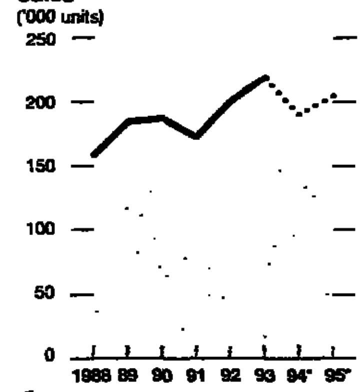
In line with the hairshirt mentality now ruling Volkswagen these forecasts along with the latest strategic plan for Skoda are much more modest than the euphoric earlier versions. But VW is still working hard to explain to its Czech partners that even this agreement must be open to change as market conditions evolve.

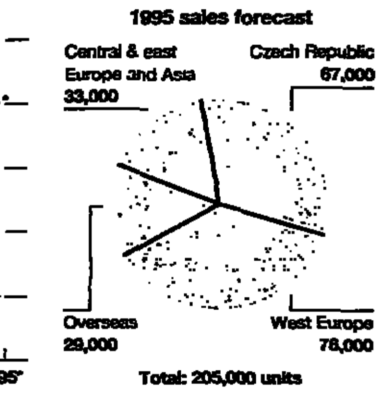
"Our people saw the (original) contract as a state plan," says Mr Ludvik Kalma, Skoda chairman. "When we speak of five-year plans, people think that that is a dogma for five years, but now when one plan is made, we start working on the next."

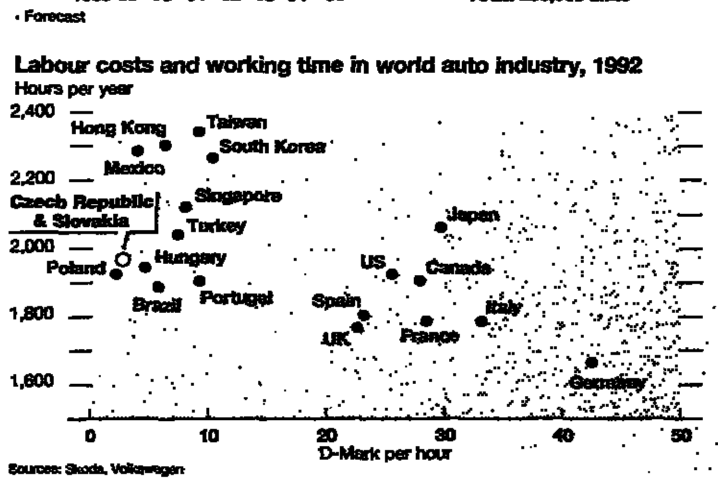
Skoda: coming up to speed



The new Skoda Felicia, going on sale shortly







Sources: Skoda, Volkswagen

OBSERVER

Purse-break hotel

■ Observer is starting a campaign to discover which UK hotel charges the most to make a five-minute telephone call. The award – a broken handset from a 1960s public telephone, or a bottle of malt, winning nominee to choose – will go to the biggest proved rip-off posted or faxed in by Christmas.

Top of the list so far is the spanking new Hilton National hotel in Swindon. A colleague was recently charged £42.50 for a 30-minute Sunday night call to Dublin. British Telecom's weekend rate at five pence per unit – roughly 15 seconds – would have cost about £6, and Mercury somewhat less.

But Swindle's – sorry, Swindon's – *Hilton* charges 30p per unit *for* the first 10 units, and 25p thereafter. The hotel's general manager Ashley Myers thought this wasn't too bad, since he understood the Manchester Airport Hilton to charge 36p per unit. Much the same as it's better to be eaten by lions than tigers . . .

Party for the people

■ You have to travel far these days to see a proper celebration of the 1917 Bolshevik revolution. To Hanoi in fact, where communist officials commemorating the 77th anniversary yesterday laid wreaths at a statue of Lenin. The newspaper Hanoi Moi declared the revolution "the most glorious event of the 20th century", while party ideologist Vu Huu Ngoan wrote in another paper, Nhan Dan, that "we have to build a clean, strong, well-organised party . . . *the failure of perestroika* in the Soviet Union reminds us that a socialist-oriented society must have renovation".

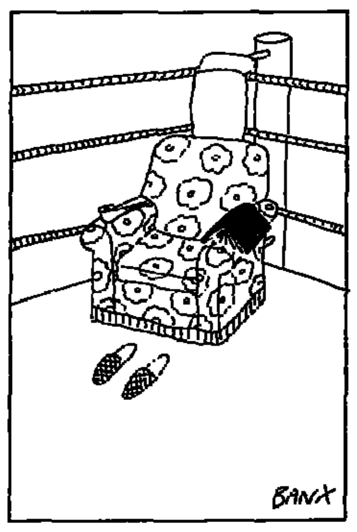
In Moscow, pro-communists were banned from Red Square. Instead, a group of Western clowns did tricks for children: "Here's the proletarian revolution; now you see it, now you don't."

Bread and circuses

■ Proof positive that there is such a thing as a free lunch. That's what voters got on Sunday when they *turned out for a presidential* election and constitutional referendum in Tajikistan, the central Asian country at war since its inception in 1991.

Tajikistan has 2.64m registered voters, who had to choose between Tajik president Emomali Rakhmonov and challenger Abdulmalik Abdulladjanov. About 20,000 people have already died in the civil war. Now there's a food shortage as well as a guerrilla war.

Free rice pilaff was served as an enticement for people to vote. Abdulladjanov – currently Tajikistan's ambassador to Russia – must have hoped that as a former minister of bread, he was in with a chance. Instead, the voters appear to have endorsed the pilaff prince; Rakhmonov was declared the winner with 80 per cent of the vote.



Rising sap

■ The UK's department of the environment was struck with a severe dose of time-travel indigestion yesterday. At 11.45 the central office of information electronically informed the nation's newsrooms that John Gummer, environment secretary, had given the go-ahead for two new *community forests in Cleveland and* Nottinghamshire. The announcement, the CoI helpfully added, had been made at the Association of County Councils' annual conference in Leicester.

Three hours later – *after* Gummer's speech – a worried delegate asked about forestry, a *subject he had not mentioned. He* coyly answered that he hoped to make some announcements "in the near future".

Infestations

■ The US State Department's new *Bureau of International Narcotics* and crime has, predictably, been christened the bureau of drugs and thugs. State Department officials *say opposition from Congress* means the bureau has not, as originally suggested, taken on another responsibility – dealing with international terrorism. The idea of a bureau of drugs, thugs and bugs was too much, obviously.

Trotted out

■ Britain's bookies must be quaking in their boots. Robin Chater, a 45-year-old number-cruncher who runs Wantage-based Racing Sciences, believes he can spot likely winners in National *Hunt races* by subjecting the offspring of 30 sires to advanced statistical analysis. If punters had followed his *recommendations, he claims they* could easily have outperformed the stock market over the past year.

Chater, whose unlikely form includes editing the National Child Care directory, stumbled on his discovery when he was analysing his first love – trotting races. When bookmakers started not to show up *at those races he sensed that he was* on to a winner and decided to widen his field.

He picked National Hunt rather than flat racing because his theories worked better. Among his many finds is one stallion whose progeny produces a return of over 100 per cent on right-handed tracks *but loses a bundle on left-hand* tracks. Punters wanting to test Chater's form should call him on 01235 771707 (no bookmakers, *please) or keep an eye on today's* Langstone Conservative Club Novice's Hurdle at Fontwell where Chater likes the look of Million in Mind.

Psittacosis

■ Poor Prince Charles. If he hadn't already enough to face from Diana and the UK tabloid press, now he's having to spend a week in Hong Kong in the company of the world's environmentalists. He arrived in Hong Kong at the weekend from Los Angeles, and yesterday complained about jet lag and having "to stand on a rostrum with your mouth feeling like the inside of a parrot's cage".

Airline food is bad; but *that* bad?

FINANCIAL TIMES
Tuesday November 8 1994

Survey sees reserves of 4bn barrels in region

First UK deep-water oilfield gets go-ahead

By Robert Corzine in London

Development of Britain's first offshore oilfield in the deep Atlantic waters west of the Shetland Islands was given the go-ahead by the government yesterday.

British Petroleum and Shell plan to spend £550m ($885m) on developing Foinaven, the first field in a region that preliminary drilling results suggest may contain 4bn barrels of oil.

When fully developed, the region could produce an amount equivalent to a third of Britain's present North Sea output of 2.5m barrels a day.

However, the field is in 450 metres of water and in a region where weather can be harsher than in the North Sea and subsurface currents more complex.

As a result, production will not be from fixed platforms of the type used in the North Sea. Foinaven's oil will be fed into a large ship, a production and storage unit, moored over the sea-bed wells. *The ship will feed a shuttle* service of tankers.

UK-based contractors have won 72 per cent of the Foinaven contracts, accounting for £400m of the £550m that will be spent. Other western European-based companies have won 20 per cent, with those elsewhere in the world accounting for 8 per cent.

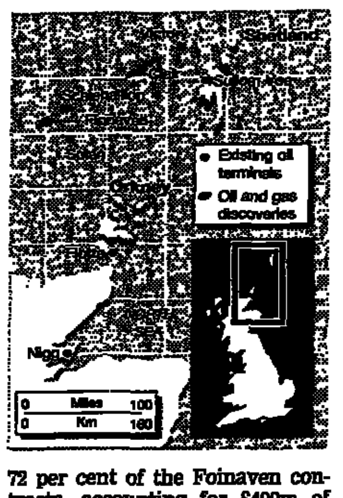
Mr Tim Eggar, industry and energy minister, also signalled *that the government would like to see* a co-operative approach to any pipeline project in the area in order to control costs. Companies that have been most active in pursuing their exploration licences *in the region are likely* to benefit most from future licensing rounds, he indicated.

Although exploration is at an early stage, a report by oil companies identified 11 possible sites for development between 1995 and 2010 at a cost of £9.5bn.

The report concludes that if the eventual reserves proved large enough, a joint pipeline might result in considerable savings on operating expenses.

It might also lead to higher recovery rates, according to Mr Norman Smith, managing director of Smith Rea Energy Associates, one of the report's authors.

BP said development of Foinaven differed markedly from North Sea fields. The bulk of the spending in the North Sea went into traditional fixed platforms. But Foinaven's floating production facility amounts to only 35 per cent of spending, with new methods of drilling and the complex *subsea wells accounting for* 35 per cent and 30 per cent respectively.



Tests find door faults in a third of UK car ferries

By Charles Batchelor in London

The British government is to increase checks on roll-on roll-off ferries after one in three of the vessels operating from British ports was found to have faulty bow doors.

Thirty-five of the 107 ferries inspected had minor defects when the Department of Transport's Marine Safety Agency carried out the checks after the sinking of the ferry Estonia in the Baltic in September with the loss of 900 lives.

The faults included leaky rubber seals and fractures to brackets and fittings on the bow doors. But Dr Brian Mawhinney, British transport secretary, said yesterday that all the vessels tested were watertight and fundamentally sound.

However, one vessel, the Winston Churchill, a Danish-flagged *ferry plying between Newcastle* and Esbjerg, had had to be detained for repairs to its stern door.

The findings come just before the start of passenger shuttle services through the Channel tunnel that are expected to take a large share of the ferries' cross-Channel business.

Ships flying the UK flag had a *higher incidence of defects* than the foreign-flagged vessels. Of the 58 UK-flagged vessels, 36 per cent needed repairs, compared with 28 per cent of the 49 foreign-flagged ships.

Dr Mawhinney said he was surprised that faults had been found with as many as 35 ferries. He was in Dover watching tests on the inner bow doors of the Pride of Calais, a six-year-old vessel operated by P&O European Ferries. Water from a high-pressure hose failed to penetrate the door seals.

Dr Mawhinney said the Marine Safety Agency had been asked to increase the number of unscheduled inspections and to write to all ferry operators to remind them of the need to pay attention "to even the smallest safety detail, so as to maintain safety standards at the highest levels".

The agency is also to carry out *computer studies of the effect of* water penetrating bow doors and whether the installation of internal bulkheads, urged by the Royal Institution of Naval Architects and others, would make any difference.

The British government would order a redesign of ferries only if there was strong evidence that bulkheads would provide a safety benefit. The results of the agency's study should be ready by the end of the year.

UK ferries are surveyed once every 12 months by agency inspectors when the passenger ship safety certificate is renewed. Unscheduled inspections are carried out at least twice a year.

South Korea eases curbs on economic ties with north

By John Burton in Seoul

South Korean president Kim Young-sam *announced* a gradual easing of restrictions on economic ties with North Korea yesterday after the recent settlement of the dispute over Pyongyang's nuclear programme.

Seoul is expected to announce tomorrow that South Korean businessmen may visit North Korea to discuss proposed investment and establish representative offices in the north.

Direct investments of less than $5m (£3.1m) will be permitted, and machinery used in reprocessing commissions from South Korean companies, *such as* for textiles, can be shipped to North Korea.

But the measures stop short of allowing the large investments *that North Korea is seeking from* South Korea's main industrial groups.

South Korean officials view full-scale economic co-operation as a carrot to persuade a *reluctant North Korea to resume talks* on such issues as intra-Korean nuclear inspections.

The partial lifting of the restrictions essentially returns the north-south economic relationship to the situation two years ago before co-operation was suspended as a result of North Korea's threat to withdraw from international nuclear agreements.

South Korea's main economic organisations, which have been lobbying for the easing of restrictions, welcomed the announcement.

Mr Kim said a test of North Korea's willingness to co-operate would be its acceptance of South Korean nuclear reactors, *stipulated under the recent nuclear* accord between Washington and Pyongyang. He also expressed support for North Korea's participation in the Asia-Pacific Economic Co-operation forum.

North Korea meanwhile said it would hold meetings with the US in the next few weeks to carry out the agreement, signed last month, to dismantle its present nuclear programme.

The agreement, signed with the US, has opened the way for the replacement of North Korea's nuclear programme. Talks on the disposal of the north's spent fuel rods, which could be used to produce an estimated five nuclear bombs, will be held in Pyongyang on November 12-19.

Consultations on the supply of light-water reactors to North Korea to replace its graphite reactors will be conducted in Beijing from November 30. Discussions on the opening of a liaison office between the US and North Korea will be held in Washington on December 6-10.

UN official speaks of hope for Bosnia peace

Continued from Page 1

placed under UN supervision and deploy them against the Moslem-led government army if attacks around Sarajevo continued.

UN ground forces are too lightly armed to prevent the *Serbs from retaking the equipment*. However, such violations of the total exclusion zone around Sarajevo might prompt air strikes by Nato forces.

Bosnian Moslem and Croat forces continued their offensive, pouring artillery fire on to Serb positions near Donji Vakuf, a strategic town in central Bosnia.

Bosnian government forces are also trying to take Trnovo, a ruined but strategically *important town, which, if it falls, could* provide a link between Sarajevo and the Moslem enclaves in eastern Bosnia.

Mr Akashi was speaking in Geneva, where he conferred with Mr Boutros Boutros Ghali, the UN secretary-general, and UN commanders in former Yugoslavia about the future of the organisation's hard-pressed peacekeeping effort.

UN officials have complained *that the contact group, which is* supposed to be working for a settlement in Bosnia, is leaving the peacekeeping forces increasingly exposed.

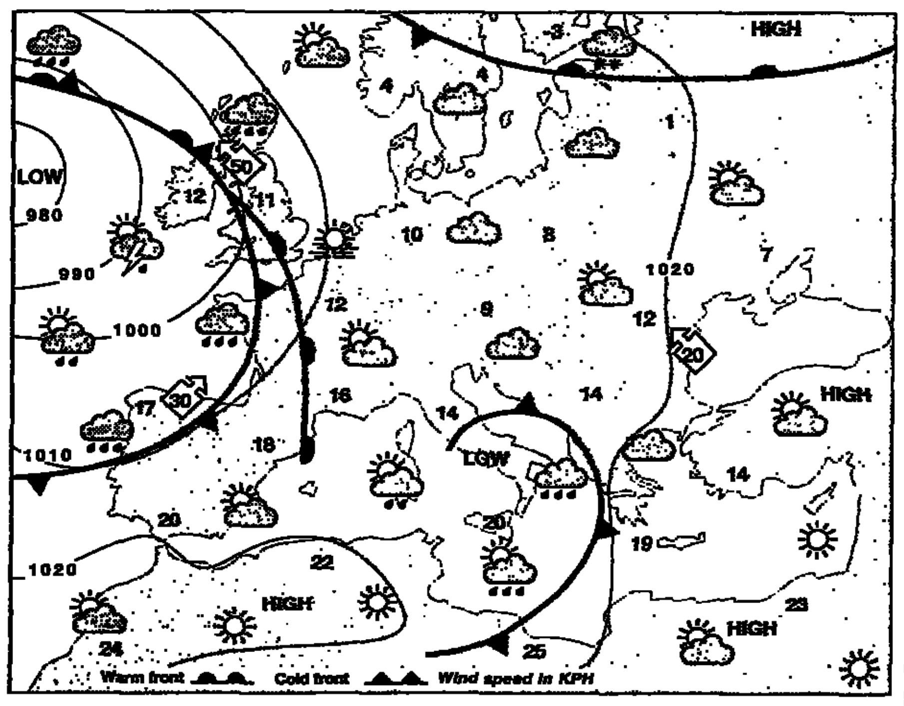
FT WEATHER GUIDE

Europe today

Low pressure over the south-west of the UK will draw colder air into western parts of the continent on a south-westerly flow. It will be rainy and windy near the boundary between cooler and warmer air. Rain will linger over *northern Ireland, western England, western* France and north-west Spain before spreading into the western Benelux. The heavy rain that produced flooding in north-west Italy during the last couple of days will *move to south-east Italy* and the western and southern Balkans. Scandinavia will be overcast, although northern areas will be sunny and wintry.

Five-day forecast

The low over the UK will slowly move east before heading *north-east* from Wednesday. The associated boundary between warmer and cooler air will continue to cross the continent, bringing rain to the Benelux, France and Spain. Later this week, a depression approaching from the Atlantic will produce rain over most of the western part of the continent. High pressure building over Scandinavia will give wintry conditions. The Mediterranean will continue rainy.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																							
			Beijing	fair	17	Caracas	fair	32	Faro	cloudy	21	Madrid	shower	15	Rangoon	sun	33
			Belfast	rain	11	Cardiff	rain	13	Frankfurt	cloudy	10	Majorca	fair	20	Reykjavik	rain	9
Abu Dhabi	sun	32	*Belgrade*	cloudy	14	Casablanca	fair	21	Geneva	drzzl	12	Malta	cloudy	23	Rio	cloudy	26
Accra	fair	30	Berlin	drzzl	9	Chicago	shower	12	Gibraltar	fair	20	Manchester	drzzl	12	Rome	rain	19
Algiers	fair	22	Bermuda	fair	24	Cologne	fog	13	Glasgow	rain	11	Manila	cloudy	30	S. Frsco	cloudy	15
Amsterdam	fog	11	Bogota	shower	19	Dakar	sun	29	Hamburg	cloudy	9	Melbourne	shower	16	Seoul	sun	19
Athens	fair	18	Bombay	fair	32	Dallas	fair	25	Helsinki	snow	-2	Mexico City	cloudy	21	Singapore	thund	31
Atlanta	sun	23	Brussels	cloudy	13	Delhi	hazy	29	Hong Kong	sun	27	Miami	fair	30	Stockholm	cloudy	5
B. Aires	fair	23	Budapest	cloudy	10	Dubai	sun	32	Honolulu	fair	29	Milan	shower	13	Strasbourg	fog	11
B.ham	*rain*	*12*	*C.hagen*	*cloudy*	*7*	*Dublin*	*rain*	*12*	*Istanbul*	*fair*	*14*	*Montreal*	*rain*	*8*	*Sydney*	*fair*	*22*
Bangkok	fair	33	Cairo	fair	23	Dubrovnik	cloudy	18	Jakarta	fair	32	Moscow	fair	-2	Tangier	fair	20
Barcelona	fair	18	Cape Town	fair	25	Edinburgh	drzzl	11	Jersey	rain	11	Munich	fog	9	Tel Aviv	fair	21
									Karachi	sun	35	Nairobi	thund	25	Tokyo	shower	17
									Kuwait	shower	26	Naples	thund	18	Toronto	fair	14
									L. Angeles	fair	19	Nassau	fair	29	Vancouver	rain	10
									Las Palmas	fair	24	New York	fair	17	Venice	cloudy	15
									Lima	cloudy	22	Nice	fair	17	Vienna	rain	10
									Lisbon	rain	19	Nicosia	fair	24	Warsaw	cloudy	9
									London	rain	13	Oslo	cloudy	4	Washington	sun	19
									Lux.bourg	cloudy	10	Paris	cloudy	14	Wellington	windy	17
									Lyon	fair	14	Perth	fair	38	Winnipeg	fair	2
									Madeira	fair	23	Prague	drzzl	8	Zurich	fair	10

THE LEX COLUMN

Churning TeleWest

Just as TeleWest is trying to enthuse investors about its impending £1.6bn-£1.9bn flotation, an astonishingly high proportion of its customers are switching off. The churn rate – the number of cable television customers who disconnected as a proportion of TeleWest's total customer base – was 48.5 *per cent during the year to end-*September. Some of this is because of a give-away promotion during the spring: nearly 90 per cent of those who took the free offer cancelled their subscriptions when the bills started rolling in.

The high churn rate raises questions about TeleWest's indicative valuation. Implicit in the valuation is the assumption that the level of take-up *for cable television will jump from 21* per cent to 47 per cent. But if customers are so quick to switch off, one wonders whether TeleWest can achieve such penetration.

Another question is whether the implicit "terminal value" – how much TeleWest will be worth in 10 years – is reasonable. Kleinwort Benson, joint global co-ordinator, calculates the terminal value at 10 times operating cash flow. When depreciation, interest and tax are taken into account, the more conventional earnings multiple is something over 20, which looks pricey for what should then be a fairly *mature business*.

There is, of course, a positive side to the TeleWest story: its revenue from telephone services is booming; further potential is provided by multimedia services which are only a twinkle in its eye; and other UK cable operators recently floated in the US have performed well. But, with TeleWest not due to report a profit until 1996, the risks of investing look high.

Sweden

The prospect of a No vote in Sunday's EU-membership referendum has come as a nasty shock to Sweden's markets. Increasing confidence in the government's determination to tackle its budget deficit made Sweden the best performing government bond market in October. But in the past few days the spread between German and Swedish 10-year bonds has widened by almost 100 basis points as a series of polls have pointed to a No vote.

Sentiment was not helped by last week's deficit reduction package which leaves a good deal to do, even if one believes all the assumptions. Since one of these is a big reduction in interest rates by the end of next year, the bond market was not impressed. Nor are floating voters persuaded by the government's warning that a No vote will require sterner measures.

Though Swedish business has campaigned for a Yes vote, it is unclear how great the cost of non-membership would be on its highly international leading companies. A No vote would hit the krona, if only on the expectation that inward investment would dry up, which would further enhance the competitiveness of Swedish manufacturing. But the currency risk will discourage international investors. Swedish shares are not particularly cheap anyway. Buyers of bonds also risk further losses with a No vote not yet fully discounted. The yield spread against bunds is still narrower than for Italy, whose public finances are in scarcely worse shape than Sweden's.

BAA

Refurbishing airport terminals may bring long-term benefits, but as BAA admitted yesterday such improvements have a short-term price. Growth in retail *spending per passenger in the* first six months of the current financial year was limited to just 1.8 per cent compared with the first half of last year because shopping facilities were being rebuilt. Brokers who already knew that passenger numbers had climbed 7 per cent had expected to upgrade their profits forecasts. The disappointing spending figures prompted a fall of nearly 5 per cent in the share price.

Nevertheless, BAA is certain to benefit from the growth in civil aviation. The channel tunnel may have some impact on passenger volumes next year, but in the worst case damage should be limited to the equivalent of six months growth. Meanwhile, spending per *passenger should rise once the* terminal improvements are completed. At Heathrow terminals three and four, where work is completed, retail income per passenger has improved 21 per cent and 83 per cent respectively.

With operating costs firmly under control, up just 3.5 per cent year on year, BAA is well managed. But with a price earnings ratio for the current year of 19, its shares trade at a 30 per cent premium. Given that earnings grew 12 per cent in the first half, such a premium may look expensive compared with other premium rated groups such as Reuter. But what BAA lacks in growth, it makes up in predictability. With its monopoly position and increasingly lenient regulatory regime, there is little to knock the group off its steady upward path.

Gartmore

UK pension fund managers are more international in outlook than their peers in other countries, as shown by the *relatively high weighting* they give to non-domestic assets in their investment portfolios. But UK fund managers suffer from parochialism insofar as the money they manage originates overwhelmingly from the UK. The fiercely competitive UK market looks increasingly ex-growth.

Gartmore's joint venture with NationsBank of the US is a smart answer to the strategic challenge. It involves minimal initial outlay by either party and is unlikely to make a contribution to Gartmore's earnings before 1996. Nevertheless the deal promises to insulate Gartmore from further stagnation in the UK. At the same time, it gives the UK group access to the US market, where the share of pension fund money invested outside the US is set to rise from 3.0 per cent *to 11.5 per cent over the* decade to 1998. Alone, Gartmore could have hoped to have gained a modest share of this business. The alliance with NationsBank brings together the US bank's distribution muscle with Gartmore's investment expertise. As a result the joint venture's target of managing $5bn (£3bn) of US money within five years looks attainable.

If so, the impact on Gartmore's profits will be substantial – and the 10 per cent of Gartmore sold to NationsBank a price worth paying. The move will put pressure on other UK fund managers to find partnerships.

Software work in Bangalore: the economy advances but there is still no fullscale breakthrough

Reasons for pride and for caution

The pace of reform is winning international acclaim. But there are urgent social reasons why India cannot rest on its laurels, writes Stefan Wagstyl

Mr PV Narasimha Rao, the Indian prime minister, has much to celebrate in the results of the economic liberalisation he launched three years ago. But he needs to carry out further radical reforms if the party is to live up to expectations.

Seven good monsoons in succession have brought prosperity to many farmers. Industrial output is growing faster than at any time since reforms began. Promises of foreign investment are pouring in and the stock market is trading near its all-time high. If the economy continues to perform strongly, Mr Rao will be well placed for the next general election, due by mid-1996.

Yet, India is still some way from achieving economic take-off. As Mr Amit Mitra, secretary general of the Federation of Indian Chambers of Commerce and Industry, says: "There's an incredible amount of energy in Indian industry now. There's an expectation of growth. But it will take time to fructify."

Mr Manmohan Singh believes the economy can achieve a growth rate of 7 per cent a year in the late 1990s. But it has not got there yet – for the current year the government expects the economy to grow 5 per cent, less than the 5.5 per cent achieved in the pre-reform 1980s and well short of the growth rates of India's leading international rivals in the developing world. As the International Monetary Fund, in its annual report published on the eve of last month's IMF-World Bank meeting in Madrid, said: "Reforms will need to be accelerated in order to sustain robust growth and allow India to share in the prosperity and rapid development enjoyed by a growing number of countries in east and southeast Asia."

The IMF and other advocates of reform praise India for the changes made already – including cuts in import barriers, reductions in public spending and easing of controls on private business activity. But these reforms cannot transform India without digging deeper into the heart of the pre-reform economy by cutting the bloated state-owned enterprises, the over-manned bureaucracy, and the coils of patronage and corruption which surround the government. Without such reforms, India cannot enjoy the gains in efficiency which it needs to compete in world markets. It would also find it difficult to raise the funds for those services which the government plans to enhance – including education, health care, population control and infrastructure.

Mr Rao argues that a large democracy like India cannot rush reform. He wants to take time to develop a consensus and pursue an approach he calls "the middle way" in which the development of a free market economy is balanced with a proper regard for the economic role of the state.

The prime minister's critics say India cannot afford delays if it is to catch up with fast-moving international rivals such as China and Indonesia. The country also has little time to waste in improving the miserable living standards of most of its 900m people, especially the 250m living below the government's own poverty line. The recent outbreak of plague, which claimed more than 50 lives and spread panic around the world, showed that India's rapidly-growing cities are in crying need of better water supplies, sewers, waste disposal services and medical care. With the population still growing at over 2 per cent annually, there are nearly 20m extra people to provide for every year.

There is a political dimension to the argument as Mr Manmohan Singh himself points out. He said in a recent speech that without faster growth India would be condemned to divisive rows about sharing out the economic pie. In a crowded country, laced with divisions of caste, religion and language, such rows can quickly become very bloody. The current tensions in the large northern state of Uttar Pradesh are a case in point. A chief minister, who took power in the name of the lower castes last autumn, is busy enforcing government job quotas of up to 49 per cent for the lower castes. Upper caste Hindus are responding with angry demonstrations which have led to the loss of about 20 lives.

Since taking office in 1991, Mr Rao has succeeded in containing such tensions, notably the Hindu-Moslem arguments which culminated in the destruction of the Ayodhya mosque in December 1992 by Hindu fanatics and widespread violence. He resisted pressure to confront the right-wing Hindu Bharatiya Janata Party, the main opposition party. Instead, he patiently waited for the storms to subside.

The strategy has worked – up to a point. When voters went to the polls in four northern states last autumn, the BJP suffered a significant setback. Its charismatic leader, Mr LK Advani, and his colleagues are now struggling to regain the momentum and unity they created around the Ayodhya issue. Their efforts to launch a credible national challenge to the ruling Congress (I) party have floundered.

All dressed for school: many more are a lot less fortunate

In the meantime, the wily Mr Rao has reinforced his own position. Since stepping in as a stop-gap for the assassinated Rajiv Gandhi in 1991, Mr Rao has beaten intra-party challenges to his leadership. Early this year, he extended his grip on Parliament by winning over splinter groups to turn a government minority into a majority. While he has done little to create lasting peace in the troubled northern state of Jammu and Kashmir, where Moslem insurgents are fighting the security forces, the prime minister has at least contained the domestic and international political fall-out of the conflict. Barring electoral disaster in the 10 state elections to be held later this year and early next, Mr Rao now seems certain to lead Congress into the next general election.

Yet for all his political skill, Mr Rao has yet to generate genuine popular enthusiasm, *either for himself or for his* party. Disenchantment with the BJP has not fuelled any surge of support for Congress. The big winner in last year's state election was the alliance of lower caste parties in Uttar Pradesh. Caste-based and regional parties are also likely to perform well in the forthcoming polls.

Congress has in the past proved adept at winning support from local parties in national elections – and will probably carry on with this form of horse-trading. But that forces Mr Rao and his colleagues to concentrate on ways of dividing the pie – an unsatisfactory strategy, as Mr Manmohan Singh warned.

Fortunately, the economy is performing well enough to give Mr Rao room for manoeuvre as he prepares for the state and general elections. Richer farmers are enjoying record incomes. Industry, which suffered in the first two years of reform from cuts in public spending, has redirected its sales to exports and the private sector. Companies are

☐ Continued on Page 3

IN THIS SURVEY

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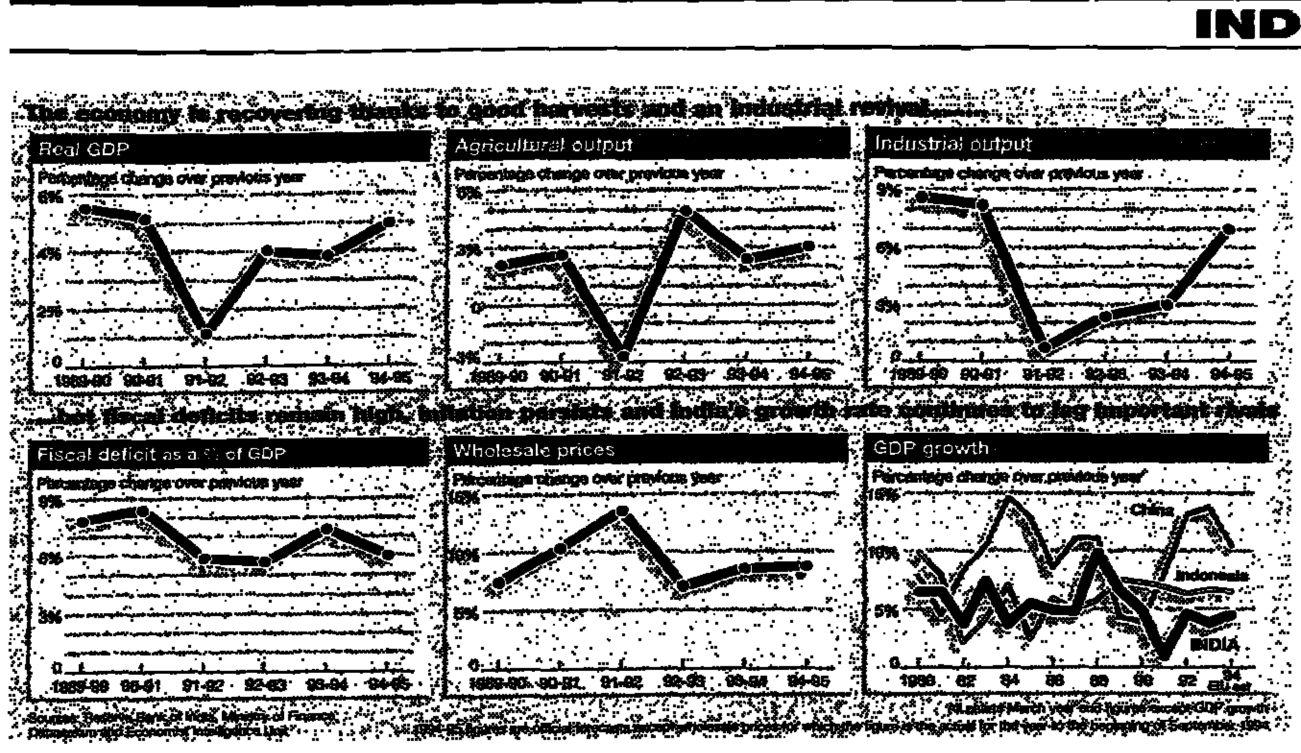


Traffic in the centre of Delhi ... domestic demand is so strong that supplies to overseas markets have been cut

The economy is responding to treatment, writes **Stefan Wagstyl**

The gamble paid off

For the moment, Mr Manmohan Singh, the finance minister, seems to have gambled successfully. When he delivered this year's budget in February, he said he was taking a calculated risk in slightly relaxing controls on public spending in order to promote growth.

All the indications are that his calculation were right – with India enjoying the biggest surge in industrial output since Mr Singh and Mr P.V. Narasimha Rao, the prime minister, launched their economic reforms three years ago.

But this success could prove short-lived unless the government presses ahead with more measures to free the Indian economy from the dead weight of 40 years of socialist-inspired central planning. Partial reforms have already created a widespread sense of excitement, in India and abroad, about the opportunities for business. The government's reform-minded critics say further reforms are needed if this excitement is to generate sufficient growth for India to achieve industrial take-off – a sustained increase in its long-term economic growth rate.

Mr Narasimha Rao argues that it is important not to rush reform. In a large democracy like India, broad-based consensus must precede significant change. He also says that India must balance the pursuit of liberalisation with a proper respect for its past achievements, including the tradition of state-owned industrial enterprise.

His critics say the prime minister lacks a sense of urgency. They claim that India, already behind important international rivals such as China and Indonesia in economic development, is wasting valuable time. The International Monetary Fund, in its annual report published on the eve of this month's IMF-World Bank meeting in Madrid, urged India to accelerate reforms.

In the light of India's recent economic performance it is easy to understand why the government is relaxed. Seven good monsoons in a row have provided a solid underpinning to living standards of most Indians, especially the 70 per cent who still live on the land.

Thanks to liberalisation, which has included the abolition of most controls on domestic investment combined with the easing of curbs on trade and foreign investment, foreign trade and investment are expanding. Exports, which the government sees as an engine of growth, rose 20 per cent in the year to March 1994 and have risen 10.6 per cent in the first five months of the 1994-95 year. Imports, after three years of stagnation, are also growing due mainly to imports of machinery and equipment – a sign of increasing confidence in industry.

Industrial output, which was also slack in the early years of reform due to cuts in government spending, is now picking up – buoyed by private demand, just as reformers hoped. In June, the latest month for which figures are available, it rose 8.6 per cent, the biggest increase since 1991. Inflation, running at about 9 per cent a year for wholesale prices, is higher than the government would like but has fallen from over 11 per cent in recent months. As Mr Shankar Acharya, the government's chief economic adviser, says: "The economy is performing well."

Critics say further reforms are needed but the prime minister says that it is important not to rush reform

Foreign companies have been sufficiently impressed with the way India has dragged itself out of the 1991 balance-of-payments crisis to take advantage of the relaxation of investment curbs and invest in India. The inflow of direct investment has soared from \$150m in 1991-92 to \$620m last year and should climb further this year because several large private projects to build power stations with the help of foreign partners are close to starting construction work.

Even more dramatic has been the increase in foreign portfolio investment from \$158m in 1991-92 to \$4.1bn last year, including investment in Indian markets and in the overseas issues of Indian companies. The inflow has helped take foreign exchange reserves to over \$19bn, compared to just \$1.6bn in 1991.

Taking account of the optimism of domestic and foreign companies, the Reserve Bank of India, the central bank, in its annual report made its most positive forecast in recent years. It predicts national output will rise by about 5 per cent in 1994-95, up from 3.8 per cent last year. Agricultural production is set to expand 3 per cent and industrial output by 7 per cent, fuelled by a 10 per cent rise in private investment. Domestic demand, especially in cars, motorcycles, scooters, refrigerators and consumer electronics, is so strong that exporters have been diverting supplies from the overseas markets to the domestic – to the annoyance of the commerce ministry which is trying to promote exports.

Mr Manmohan Singh believes the economy is on track to grow at 6-7 per cent in the late 1990s. This may be so, but it will almost certainly require further significant reforms to achieve the target. Mr Tarun Das, director general of the Confederation of Indian Industry, says: "We need to go further and faster with reform if we are to achieve industrial take-off."

While the economy has picked up impressively in the past year, the growth rate is still less than the average of 5.5 per cent a year achieved in the pre-reform 1980s and well short of India's international rivals.

It is not as if the government did nothing in the past year to advance reform. Important recent moves have been an overhaul of the tax system, including the rationalisation of indirect taxes; reductions in import duties from a maximum of 85 per cent to 65 per cent; the partial liberalisation of the heavily-controlled pharmaceuticals industry and the opening of the telecommunications industry to private enterprise, including foreign groups.

There have also been significant changes in financial markets, notably the licensing of 10 new privately-owned banks, the first time in more than 20 years, and of new foreign banks. Some foreign exchange controls have been lifted, allowing India to accede to Article 8 of the IMF, an important bench-mark of the financial globalisation. Only last month, the central bank deregulated bank lending rates. Mr Shankar Acharya says: "It is a fact that some people feel reform has slowed... But these achievements are still important."

While the economy has picked up in the past year, the growth rate is still well short of India's international rivals

Next on the public agenda is reform of the insurance industry, in which the government is considering a report which recommends ending the state monopoly. Mr Manmohan Singh is also committed to further cuts in import duties in next year's budget and is considering lifting the virtual ban on imports of consumer goods.

However, advocates of faster reform argue that this agenda fails to address crucial issues, some of which are discussed in detail elsewhere in this survey. First, public spending remains high. After cuts in the first years of reform, public borrowing soared last year, taking the fiscal deficit to 7.3 per cent of GDP. It is falling in 1994-95, thanks to strong tax revenues. However, the burden of interest payments is rising – from 39 per cent of revenues in 1990-91 to 53 per cent in 1993-94, according to the reserve bank. This squeezes the funds available for development, health and education. Without better health and education, the great majority of Indians cannot hope to participate in a modern economy.

Next, while many bureaucratic controls on the economy have been scrapped, the officials' desire to retain influence has not. Also, India needs to improve the efficiency of state-controlled industries. The government has sold minority stakes in public enterprises but shies away from full-scale privatisation.

The government has also postponed possible reforms of labour laws that limit employers' rights to dismiss workers. While private employers often find ways around these, through voluntary retirement schemes, public enterprises have little incentive to shed labour.

More needs to be done to encourage private investment in infrastructure, including power, telecommunications and transport, all virtually state monopolies which have suffered from years of under-investment.

Finally, while ministers have liberalised the capital markets, they are reluctant to relax control of the banking industry. The state-owned banks, which dominate the market, are being allowed to raise private equity, but the government will retain a majority stake and stifle genuine competition.

Alexander Nicoll studies India's form in Asia's investment race

Fast start, still trailing

Each day in India now brings news of foreign and Indian companies discussing joint venture agreements. After three years of economic reform, foreign direct investment shows signs of acquiring momentum.

According to a report by the United Nations Conference on Trade and Development, actual direct investment in India is expected to rise to $2bn in 1995 from $577m in 1993. This would be a big increase, especially considering that in 1991 the figure was virtually zero.

The upsurge of foreign interest in India is encouraging for the government. But the amounts of money are still dwarfed by those pouring into its rapidly growing Asian neighbours.

While New Delhi approved $3bn or so of potential investments last year, the Chinese authorities approved $26bn. Even in the Philippines, which is seeking to increase its attractiveness to investors after several years as the laggard of south-east Asia, the Board of Investment approved projects worth $8.6bn in the first half of 1994 alone.

There are several obvious reasons for India's lag. Its economic reform programme began only three years ago, when new foreign investment was virtually at a standstill. Investment in China also began slowly after Deng Xiaoping began his reforms at the end of 1978, and has since seen several stuttering periods until it reached the extraordinary pace of the past few years.

Many foreign companies were wary of India, which had had a habit of nationalising or expelling them since independence in 1947, and had subjected the hardy few that persisted to mind-boggling bureaucracy.

A more immediate concern was that economic reform was only undertaken as a result of a financial crisis which reduced foreign currency reserves virtually to zero in 1991. Inevitably, it took some time for the government of Mr PV Narasimha Rao to convince the outside world that it was serious about its change of direction and for the new policies to show through in economic performance.

Even now, budget deficit targets are routinely exceeded and both exports and industrial output have failed to gather strong momentum. However, the government will have taken heart from the strong confidence in India's economic prospects expressed from all sides at this month's annual International Monetary Fund/World Bank meetings in Madrid.

Once persuaded that India is a promising venue for investment, companies take time to explore their market and to find the right partners in a country whose size alone offers vast opportunities to those who make the right choices.

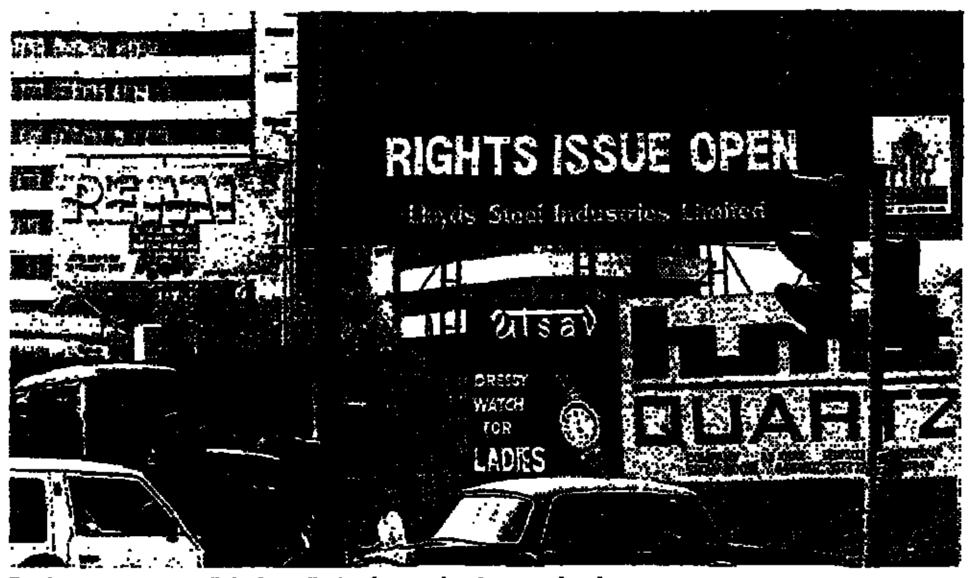
Those who venture in find that, in most industries, the red tape surrounding approvals of foreign investment has substantially diminished. Bureaucracy, however, has hardly disappeared, especially at the state level.

Professor Michael Porter, a Harvard management expert who has conducted a detailed study of India's competitiveness, noted in September that India now has the "benefit of the doubt, as China or Brazil did 10 years ago. But this is fragile and can shift." He urged a new burst of micro-economic liberalisation to sharpen India's edge.

Barclays de Zoete Wedd, the UK stockbroker, also compared India with China and said in a recent report: "Our economic analysis concludes that India represents the better-safe-than-sorry emerging market, or perhaps the investment tortoise against China's hare."

India is perceived to have some advantages over China. These include:

- A well-developed private sector providing plenty of potential partners as well as business culture and management experience. China's communist-turned-capitalist leadership has had to try to re-create all these after stifling the entrepreneurial spirit for a generation.
- A legal system modelled on that of England, assuring investors of rights of ownership and legal redress. China's lack of an effective legal system is seen as one of its biggest disadvantages.
- A financial system and stock market which, although in need of more reform, are far more advanced than China's.
- India's steady economic growth rate is seen by some as offering a safer ride than China's roller-coaster switches between inflation-producing booms and periods of austerity.



Bombay street scene: all the ingredients of a popular share-owning democracy

Moreover, some of India's handicaps are precisely the same as those of China or of other Asian dynamos in the earlier stages of their development: lack of infrastructure; intractable labour problems; poor quality of industrial products engendered by excessive protection of the economy through high tariffs and other barriers.

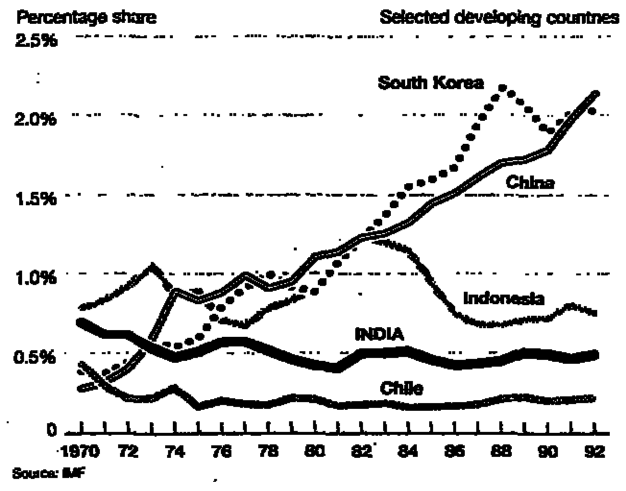
Competition is now being enhanced by progressive reductions in tariffs, and the government is beginning to tackle the need for more power and better roads and telecommunications.

However, the recurrence of bubonic and pneumonic plague in September highlighted India's lack of attention to more basic infrastructure: sanitation, clean water, refuse collection and public health. At the same time, the government's handling of some infrastructure contracts has aroused concern about increasing corruption.

India is not alone in liberalising its economy in slow stages. South Korea and Taiwan ensure that the process is tightly controlled. South-east Asian countries, although generally more open to investment, can be impenetrable and difficult to do business in.

But, inevitably, there are hiccoughs. The government's inept handling of an international share issue planned by Videsh Sanchar Nigam, the international telephone monopoly which was intended to be the first public sector company to issue equity internationally, has raised doubts about its willingness to adapt to the markets' faster pace.

World exports



Source: IMF

More broadly, there are signs of growing satisfaction within the government that it has already done enough for the time being to reform the economy. A rise in foreign exchange reserves has reduced the need for aid from international financing institutions and has thus also reduced the urgency to follow their advice on restructuring sectors of the economy.

Asia's fastest growing countries, meanwhile, have wasted little time on self-congratulation. China and Indonesia are huge borrowers from the World Bank and Asian Development Bank. The World Bank is very closely involved in the re-shaping of China's economy.

Indian reform is thus likely to continue to be slow and erratic. This means that foreign investors need a long time horizon. Rare will be the company turning a quick profit on its investment in India – but this is equally true of investment almost all other Asian countries.

Serious investors are prepared to accept this. Mr Arnold G. Langbo, chairman of Kellogg, the US cereal group, interviewed about its investment in India by the *Business Standard* newspaper, said: "Some markets take five years, some take 10, but it really doesn't matter to us. We think in terms of 10 to 20 years to grow the markets so that 20 years from now we're going to have a huge business here."

Cause for pride and caution

□ Contd. from Page 1

queueing up to invest in infrastructure following decisions to open power, telecommunications and transport to private investment. Businessmen are optimistic about their prospects, for the first time in three years. "We have faith in India's future," says Mr Anil Ambani, managing director of Reliance Industries, the country's largest group.

Foreign companies are also showing growing interest in India. Foreign direct investment nearly doubled last year to $620m and portfolio investment jumped from negligible levels to $4.1bn. Exports soared 20 per cent last year. As Mr John Bossidy, the chairman and chief executive officer of Allied Signal, the US engineering combine, said during a visit to India last month: "It's important to step up our presence in India now. The potential for continued economic growth is staggering."

For many groups, investment in India means little more than establishing a toehold in a country from which they have been virtually absent, kept out by decades of protectionism. But a few are starting to commit substantial sums to India, notably companies planning to invest in power and in telecommunications. General Electric and Enron, the energy group, of the US, National Power, the UK generating company, and the Hindujas, the London-based expatriate Indian business family, are among those planning power stations. Potential investors in telecommunications include US West and Motorola of the US.

The inflow of foreign investment has buoyed India's foreign exchange reserves to a record level of $19bn, up from $1bn during the 1991 balance-of-payments crisis. The reserves have created something of a headache for Mr Manmohan Singh by contributing to a rise in inflation, now running at about 9 per cent a year. This is squeezing the incomes of the poor and undermining the competitiveness of India's exports.

However, large reserves have also brought considerable benefits by creating a cushion against future economic shocks, such as a drought. It has also given India more confidence on the international stage. Mr Manmohan Singh, who acted as the unofficial spokesman for the developing world at September's IMF-World Bank annual meeting, would have cut a less impressive figure if India's gold was still lying in pawn as it was in 1991.

But these impressive gains may still be wasted if the government does not press ahead with further economic restructuring. Ministers have carried out some important changes this year – notably ending the state's monopoly of telecommunications services, relaxing some foreign exchange controls, and most recently liberalising bank lending rates. They also have other plans on their immediate agenda such as liberalising insurance.

But more fundamental reforms have been postponed, including genuine privatisation and reviewing over-protective labour laws which give the government a veto over all large-scale redundancies. After toying with these ideas for a while, Mr Narasimha Rao has this year set them firmly aside.

The key problem lies in dealing with the state-owned industries which consume about half the nation's industrial capital but produce only a quarter of its output. Unless these are made efficient, it is hard for private industry to compete in world markets. But in order to make them efficient, the government must shed labour. It will not because it says it is concerned about creating unemployment. However, the unemployed could be given redundancy payments, as is happening to a limited extent in private industry.

The growth of India's foreign reserves has created a cushion against future economic shocks, such as drought

The experience of other countries shows that properly-controlled privatisation mostly leads to productivity gains which benefit the whole economy.

Mr Narasimha Rao has permitted the sale of shares in state-owned businesses but insists on retaining 51 per cent for the government so that politicians keep their influence and patronage.

Also, while bureaucratic controls have often been removed, the bureaucrats have not and fight to retain influence. Rules for private investors' entry into power and telecommunications, for example, have been left vague, giving civil servants plenty of discretion, so creating scope for untransparent decision-making and corruption.

Although the government has trimmed public spending it is struggling to keep public borrowings under control because of the rising burden of interest payments on accumulated debt. As Mr Manmohan Singh has said, this burden can only be substantially cut through raising money by privatisation. In the meantime there is a ferocious squeeze on the funds available for health, education and rural development.

The last point is crucial to building a modern economy. Ill-fed, poorly-housed and semi-literate people will find it hard to participate in industrialisation. If they do not participate, they will remain stuck in the medieval hinterland of 20th century India.

India's elite is aware of these challenges and of the possible responses. But it lacks a real sense of urgency. It deserves credit for what has been achieved in the past few years but it should not forget how much more remains to be done.

■ **Interview:** Manmohan Singh, finance minister

Changing 'mind-sets'

STEFAN WAGSTYL: How do *you assess the current state of* the Indian economy?
MANMOHAN SINGH: The short-term indicators all point to an economy in good shape. *The economic growth rate for* the year to next March should be 5 to 5.5 per cent. Inflation should be no more than about 7-8 per cent, probably less. The balance of payments is on the whole well managed. We will end the year I think with the current account nearly in balance and with foreign exchange reserves as high as the equivalent of seven to eight months of imports.

The fact that we have comfortable levels of reserves gives us added degrees of manoeuvrability in managing our economy. Industrial production, which was stagnant, is rising by 7-8 per cent. A fiscal situation which had gone out of hand last year is at long last coming under control with revenues roughly on target. So on the whole the overall economic situation looks reasonably good.

Is the current high level of the rupee harming export growth?
In the short-run at least, we can live with a stable exchange rate without hurting the country's export efforts, particularly as in the last four years the rupee has undergone a very sizeable (downward) adjustment. This year, we expect a growth rate of about 12-15 per cent in dollar terms. That's not an unreasonable or unsatisfactory target.

Do you agree with the view *that the pace of reform* has slowed?
No, I do not. We have a set agenda ... we have a medium-term plan for deregulation ... I think in most areas what we announced as our medium-term intentions we have fulfilled, perhaps not by 100 per cent but certainly by 70-75 per cent.

What is the position with the reform of insurance?
We have a paper ready and it has gone to the cabinet... Ultimately it will require legislation which will have to be passed by parliament. I have always said I am in favour of opening up the insurance industry of making our industry more competitive. We need, I think, an industry which is capable of mobilising long-term capital on a much larger scale and of financing the investment needs of our economy, particularly infrastructure.

India is selling stakes of up to 49 per cent in state-owned enterprises. Would it not be better to engage in full-scale privatisation?
Theoretically, that's certainly a possibility. But we are in politics. And, as I've often said, we don't have a consensus in our government to go beyond the 49 per cent level. Certainly, if we were willing to offer an enterprise wholesale to private investors, probably we would get a better deal. But since we don't have a consensus in favour of that sort of thing, we have to live with what we have.

Even so, the fact that up to 49 per cent of their equity will be *available* to the public means that enterprises will be under pressure to earn a reasonable *rate of return. They will be* questioned by their shareholders. All this will introduce market pressure into the thinking and the *functioning of public* enterprises even though 51 per cent of equity will remain with the government. Also, we have opened up all sectors of the economy to the private sector and therefore over a period of time the mix of the private and the public sector would tilt in favour of the private sector.

Investors in power generation are being offered government counter-guarantees to guarantee that State Electricity Boards will pay their bills? Is this a satisfactory arrangement?
I have not been very happy about the counter-guarantees but I do recognise that in a situation in which foreign investors are not familiar with the working of our power system the fear of the *unknown is something to be* reckoned with. Therefore I have gone along with my colleagues that at least in the first few projects these *counter-guarantees may* enable a lot more interest to be created in the power sector. But all of us in the government are agreed that counter-guarantees *cannot* become a permanent feature. We must explore other ways in which we can attract private investment.


Manmohan Singh: a growth rate of 7-8 per cent is feasible

Doesn't that come down to a genuine reform of the loss-making State Electricity Boards?
Yes, I think we must do a genuine reform of the SEBs. We cannot run our state electricity boards as organisations which do not earn a reasonable rate of return. Most states do recognise this. I hope that after the forthcoming elections in the states there will be positive movement towards *structural reforms.*

What is the position with reform in the financial sector, including banking?
We are trying to create a more competitive environment for banks. We have deregulated. We have abolished the minimum lending rate. We have only a maximum deposit rate. We have laid down prudential norms. Institutional change is not a one-year or *two-year* process. In many ways, people tend to forget that changing *the function* of the economy is not merely introducing legislative changes. What we are talking about is a change of the mind-set. Today the mind-sets are changing in banking....The public sector banks will have to compete with new private banks and *will have to survive* by earning their bread by the sweat of their brow.

Will there be an acceleration of reforms after the next general election, especially in politically-controversial areas such as the public sector and labour?
I am not laying down a timetable but that we urgently need *reform in the public sector* is beyond doubt. Similarly, we need to reform the labour market to reduce rigidities which in my view militate *against* the growth of employment.

What is the likely state of the Indian economy in five years' time?
I think the Indian economy should be much more dynamic, much more open, much more efficient, much *more productive, and* much more socially just. An economy in which employment levels will expand faster than ever before. An economy in which we will pay a lot more attention to meeting the basic needs of our people particularly in areas such as health, education and environmental protection. An economy in which the manoeuvrability which we would get out of accelerated growth would be utilised to create credible social safety nets to protect the more vulnerable sections of our society.

Can India by then reach the rates of growth achieved by successful east Asian economies?
I really don't know. But it's my hope and it is my firm *conviction that India needs a* growth rate of 7-8 per cent to solve the problems of poverty. It is a challenge for our country's economic and political *management to get there. It is* feasible. In the past two important constraints on India's development have been the limited food supply and *limited foreign exchange*. I think neither of these constraints applies any more and therefore I feel that even without raising the investment rate we should be able to up the economic growth rate by at least 1 per cent over the level of the 1980s.

In the past, because of all the controls, a large part of capital was locked up in inventories. *Now people don't need to lock* up capital. With some improvement in efficiency we should be able to raise the growth rate by a further 2 percentage points. In the 1980s, the growth rate was 5.5 per cent. Raising it to 7-7.5 per cent is certainly a feasible proposition in the more liberal environment in which India is now operating.

But won't India need more reforms?
Of course. I'm not saying that we have reached the end of reforms. What we need is a flexible mechanism for responding with speed and agility to changing economic conditions.

Harvard economist leads call for change of tack

From macro to micro

STEFAN WAGSTYL *explains the significance of the Porter Report*

Almost everyone in India can tell a story about the country's economic inefficiencies. Faulty telephone lines, flight delays and power cuts are part of daily life for most middle-class Indians. They complain and propose solutions, but rarely does anyone attempt to analyse these problems in a systematic way.

Economists, both Indian and foreign, have concentrated their attention on the country's macro-economic performance, and have spent less time looking at the nuts and bolts of industry and commerce.

The Confederation of Indian Industry, the employers' organisation, has tried to restore the balance by sponsoring a three-year study which focuses on the competitive position of Indian companies. The study, which was completed last month, was *carried out by Professor Michael* Porter of Harvard Business School, an international authority on competitiveness, and his associates, Professor Pankaj Ghemawat and Mr U. Srinivasa Rangan.

The authors' message is that, having achieved macro-economic stability following the 1991 balance-of-payments crisis, India should now concentrate on micro-eco*nomic reforms to pro*mote internal and external competitiveness. They call on the government to remove barriers to free markets, *to private state-owned industries, to permit* employers to cut redundant labour and concentrate public spending on the greatest needs, namely education and poverty-alleviation.

Mr Porter, who delivered his conclusions in a *lecture to businessmen last month*, urges India to focus on income growth and not indulge in arguments over income distribution which are no more than "struggles to split chapatis [Indian breads] which result in shrinking them".

The study calls on the government to act quickly saying that India now has a window of opportunity, with the favourable impressions generated overseas by the post-1991 reforms. "We need another burst of reforms, a collection of things that add up to something significant as was the case with the decisions taken in 1991."

*Mr Porter has run into criticism from govern*ment officials and some businessmen who have retorted that there is nothing new in his prescriptions. Mr Porter was the first to admit that many of his specific proposals have already been discussed in India. But his message carries weight because it is supported by an unusual amount of analysis and comparative data drawn from India and from its leading economic rivals, including China, Indonesia and South Korea.

Mr Porter's main recommendations are:

- *Improve the environment in which companies compete*. Like other economists he urges India to invest in infrastructure – unlike most of them, he puts as much, if not more, emphasis on improving the efficiency of existing infrastructure as on building new capacity. For example, he says India's power shortages could be solved simply by raising generation and distribution efficiency, including cutting theft and corruption.
- *Raise education standards*. Mr Porter says that despite pockets of excellence, India's educa*tion* levels are poor. "You can't have a productive economy if most of the people in a factory can't read and write." The globalisation of markets and the spread of technology mean that India cannot rely on cheap labour for interna*tional competitive* advantage because the value of unskilled labour is falling. India should invest in skilled manpower and the application of high technology to all industries. "There are no low-tech industries. There are only low-tech ways of competing," Mr Porter says, contrasting India's primitive shoemaking industry with Italy's advanced one.
- *Promote competitiveness*. As well as exposing Indian companies to international competition by reducing trade barriers, the government must promote internal rivalry between Indian companies. It must break monopolies, including state-owned ones, and cartels, encourage inter-regional trade and specialisation and use government procurement policies to promote quality rather than quantity of production. The government should also act to end unnecessary secrecy, which blocks the free exchange of information. "India is unique in difficulty in accessing information."

Mr Porter argues that foreign companies have *a role in importing capital and technology*. But they should not be done at the cost of reducing competition. He questions whether the government has been wise in extending counter-guarantees to private groups which are planning to invest in power generation.

He says it is "axiomatically wrong" to guarantee returns in a free economy. He also doubts whether it was correct last year for Coca-Cola, the US drinks company, to have been permitted to buy Parle Exports, India's biggest producer.

The study also has some tough advice for Indian companies:

- *Stop being opportunistic*. Too few Indian companies have strategic plans, say the authors, and prefer to grasp at business chances as they appear. Without long-term planning they cannot *hope to compete internationally*.
- *Focus the business*. Companies are over-diversified and over-extended through vertical and horizontal integration. Instead of trying to do everything they should concentrate on the business segments where they have the greatest competitive advantage.
- *Formulate clear plans for exports*. Export markets need long-term commitment in production and marketing. Foreign alliances should not be ends in themselves but designed to achieve specific targets.

The authors believe, based on the experience of other countries, that it is crucial for India to develop clusters of competitive industries, on the lines of Italy's shoe industry, where there are strong links between shoe manufacturers, machinery makers and design studios. The successful diamond polishing industry, for example, should progress from processing small stones to large ones and diversify into jewellery

Narasimha Rao: the runs pile up AP Photo

Stefan Wagstyl follows the Prime Minister's changing fortunes

Mr Rao bounces back

It is hard to believe that just over a year ago Mr PV Narasimha Rao, the prime minister, came close to losing his job when he narrowly survived a parliamentary vote of no confidence. Today he seems so secure that the political drama of last July has become a distant memory.

As Mr Rao is fond of saying: "People don't ask about the stability of my government any more." Once regarded by the ruling Congress (I) party as a stopgap leader, who took over from Rajiv Gandhi in 1991, Mr Rao has completed more than three years in office – more than any other prime minister outside the Nehru-Gandhi dynasty. He looks set to lead his party in the general election, due to be held by mid-1996 – and beyond.

Political calm has settled upon Delhi after nearly a decade of turmoil, which began with the assassination of Mrs Gandhi in 1984 and included the unrest in the Punjab, the start of the Kashmir insurgency, Rajiv Gandhi's assassination and four changes of government.

Mr Rao's first two years in office were plagued with difficulties – notably the challenge of the right-wing Hindu Bharatiya Janata Party, whose supporters destroyed the Ayodhya mosque in Uttar Pradesh in December 1992 and unleashed violence across northern India.

The 1992 Rs40bn Bombay securities market scandal was a serious embarrassment, not least for the prime minister who was accused of receiving cash in a suitcase from Mr Harshad Mehta, one of the stockbrokers involved in the affair. Last year's terrorist bombs in Bombay called into question the government's handling of crime and of relations with Pakistan, which many Indian blame for the attacks.

But since last summer, Mr Rao's stock has been rising almost continuously. He has not so much destroyed the obstacles in his way as slipped around them, repeatedly dodging challengers rather than taking them on. This has worked particularly well with the BJP, which dared him to take on the wrath of militant Hindus. Critics urged Mr Rao to confront them with a strong defence of modern secularism. Afraid to aggravate deep-rooted sentiments, Mr Rao preferred to lie low. Time, at least for now, has proved him right.

Mr Rao's approach leaves nagging doubts that some issues will come back to haunt him or his successors. For example, while the wave of Hindu militancy has waned, the Ayodhya mosque still stands in ruins and next to it is perched the makeshift Hindu temple hastily erected by the mosque's destroyers. Mr Rao has promised a new mosque and a proper Hindu temple. However, he has not said when or how either will be built. For the moment public interest in Ayodhya has faded, but it remains ripe for future political exploitation by radicals who feel they can gain from inflaming Hindu-Moslem passions.

Mr Rao was earlier this month also keeping his distance from another bloody argument which erupted in Uttar Pradesh, India's most populous state. The trouble stems from last year's state election victory of an alliance of low caste parties – the Bahujan Samaj Party, representing untouchables and their supporters, and the Samajwadi Party, representing the slightly less disadvantaged or other backward castes (OBCs).

Mr Mulayam Singh Yadav, the OBC chief minister, almost immediately began to implement long-standing rules under which up to 49 per cent of government jobs are reserved for lower castes. This infuriated the upper castes, who have traditionally dominated Uttar Pradesh.

Matters came to a head this summer in the hills in the north of the state, where 74 per cent of the population is upper caste and where there have been long-standing demands for a separate state. Upper caste demonstrators became embroiled in fights with the mainly low caste police, resulting in at least 10 deaths and scores of injuries. Mr Mulayam Singh has been accused of turning a blind eye to police violence – but Mr Rao has refused to remove him.

Mr Rao fears to act because dismissing a low caste leader would anger low caste Indians everywhere – and alienate them from Congress. Particularly in the south, where the low castes form up to 74 per cent of the population, as in Tamil Nadu, low caste votes are crucial. With state elections due in four states next month and six early next year, Mr Rao needs to be careful especially because Congress is in a precarious position in two southern states – Karnataka and Andhra Pradesh.

Mr Rao may well be right to tread softly when dealing with the caste, religious, and regional divides which criss-cross India. There have long been conflicts between the different groups struggling for power and they will survive long into the future. India has learnt to live with the tensions, even when, as in the conflicts between Hindus and Moslems, they explode into bloody violence.

However, Mr Rao's brand of masterly inactivity has not proved a universal answer to India's difficulties. For example, in Jammu and Kashmir, the northern state where Moslem insurgents are battling with the security forces, a lack of political initiatives from Delhi has brought Moslem moderates close to despair – and exposed India to international criticism. Less well-publicised but also bloody is the fighting between the authorities and separatists in the north-east. These conflicts are unlikely to be settled by military action alone.

The softly-softly approach has also contributed to a lack of clarity about economic policy. Congress is not a party wholly committed to economic liberalisation. It has espoused the cause somewhat reluctantly and has persisted with a fond regard for state-owned industry.

Mr Rao tries to balance the two trends by pursuing what he calls the middle way. It has worked so far in achieving a modest restructuring of the economy. But a more direct approach may be needed if the government is to tackle the remaining obstacles to economic modernisation, including the vested interests of the civil service, trade unions, and state-owned enterprises. Also, Mr Rao is coming under pressure to act more decisively about growing corruption, not least bribery linked to industries attracting foreign investment, notably power and telecommunications.

Finally, there is the need for revitalising the Congress party itself. In its early Nehru days, Congress lived off the euphoria of independence and nation-building. Later it derived energy from socialism. But since the deaths of Nehru and Mrs Gandhi, it has failed to develop a coherent rhetoric, capable of inspiring Indians across the country. So it is left with doing deals with an increasing number of regional parties and balancing interest-groups – a game that Mr Rao plays so well. The trouble is that the more Congress relies on these manoeuvres, the less freedom of action it will have as a national party. The government could become a hostage to electoral pacts. That would be a loss for the prime minister and for Congress. It would also be a loss for India.

Mr Rao, a thoughtful leader with a strong sense of history, is aware of the long as well as the short-term considerations of politics. It would be a pity if he allowed dealing with the latter to prevent him from ever acting on the former.

■ Profile: T.N. Seshan, chief election commissioner

Scourge of the mighty

One man in India has repeatedly challenged Mr P.V. Narasimha Rao and got away with it – Mr T.N. Seshan, the pugnacious chief election commissioner.

An upper-caste Brahmin with legendary faith in his own abilities, Mr Seshan has transformed a sinecure into the most controversial post in public life. As he says himself: "I am the ninth CEC (since independence). My predecessors saw themselves largely as a limb of the government. I do not."

Mr Seshan has turned a little-known institution, concerned largely with the minutiae of election practice, into a scourge of the country's politicians by interpreting his mandate in the broadest possible way. Mr Manmohan Singh, the finance minister, Mr Pranab Mukherjee, the commerce minister, and Mr Dinesh Singh, the foreign minister, have all been targets for Mr Seshan's wrath.

Mr Seshan sees his mission as cleansing public life of corruption and political arrogance. To his supporters, he is a hero; to his many enemies, a self-centred bully. As an aide once said of him: "He's a bull who carries his own china shop with him."

Whatever his reputation in New Delhi, Mr Seshan has struck a chord with many ordinary Indians angry at the spread of political corruption. His public meetings attract large crowds and he has launched a national "voter awareness" campaign through non-government organisations.

Mr Seshan, who is 61, is a career civil servant who rose to be chief cabinet secretary in the late Mr Rajiv Gandhi's government. Mr Chandra Shekhar, who was briefly prime minister in 1990-91, appointed Mr Seshan as chief election commissioner – a decision he later said was a mistake.

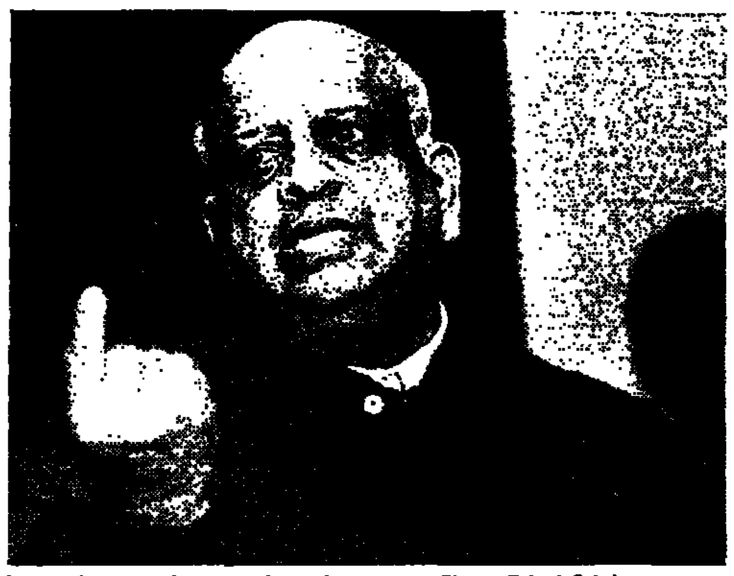
As Mr Seshan explains, with some relish, the chief commissioner is appointed for six years and can only be removed prematurely by death, voluntary resignation or impeachment. So, when Mr Narasimha Rao became prime minister in 1991 he was stuck with Mr Seshan.

Attempts to clip his wings have so far failed. Last year, the government appointed two senior bureaucrats to "assist" Mr Seshan, turning the commission into a three-man board. But Mr Seshan challenged the move in the Supreme Court, winning an interim order upholding his sole authority. His two colleagues sit in offices one floor above his in a government block in Delhi; he knows them well from his civil service days but he does not speak to them nor they to him.

This year, Mr Narasimha Rao sanctioned an abortive effort to pass two constitutional amendments through Parliament to turn the commission into a multi-member body. The government withdrew the bills at the last moment when it became clear it would not win the necessary two-thirds majority. Even though dislike of Mr Seshan runs across party lines, the opposition parties decided their interests were better served if he stayed in office to plague Mr Rao.

Mr Seshan has not escaped scot-free from attack. This summer, the Supreme Court criticised him for over-reacting to alleged electoral malpractice in the northern state of Uttar Pradesh, where the chief minister had been caught using an official aircraft during a local election campaign. Mr Seshan's decision was to postpone the polls by four months. The Supreme Court said this was far too long.

Mr Seshan's attack on Mr Manmohan Singh centred on the alleged abuse of rules for residential qualifications for electoral candidates. Under Indian law, members of both houses of Parliament are required to be resident in the state they represent. Mr Singh, a former civil servant, was drafted into the ruling Congress(I) party when he became finance minister and was given a seat in the remote north-eastern state of Assam. He gave as his address the Assam chief minister's house. Mr Seshan threatened to cancel the election but his effort got bogged down in the courts and he seems to have lost interest in pursuing the finance minister.



T.N. Seshan: targeting corruption and arrogance Picture: Rakesh Sahai

Mr Dinesh Singh survived a similar challenge by producing a ration card and evidence of property ownership in the state which he represents, even though he does not live in it. Mr Pranab Mukherjee was not so lucky. He was out of Parliament when he was appointed commerce minister and intended to contest a vacant seat. But when Mr Seshan objected to the choice of chief electoral officer, Mr Mukherjee had to resign, though he later returned to the government after winning an election elsewhere.

These individual attacks pale in comparison with the campaign Mr Seshan has waged since early last year to have all India's voters issued with photo identity cards. The government initially scoffed at such a breath-takingly ambitious plan. But Mr Seshan has stuck to his guns. He insists that the cards must be issued before a deadline of December 1994, or elections will not be valid. Since six of the 10 state elections being held in the next few months come after December, the issue is very urgent. Mr Seshan says: "I gave them plenty of time. They didn't believe me."

Mr Seshan says electoral abuses are increasing, including bribing voters, manipulating election expenses, stealing ballot boxes, intimidation and violence. But he argues these practices are still a long way from undermining Indian democracy. The Indian general election, with its 550m voters, 4m officials, 1.5m police and 800,000 polling booths, remains "one of the wonders of the world". That, he believes, is why it worth defending.

Stefan Wagstyl

INDIA 6

The highly regulated financial system is being drastically overhauled, writes **Paul Taylor**

Writing is on the wall for controllers

India's financial system is being transformed. The highly regulated system dominated by state-controlled institutions is being pushed aside to make way for what policy makers hope will be a modern, efficient system based on market mechanisms.

Some significant reforms have taken place in monetary policy where there has been a marked shift from direct instruments of control, such as the prescription of reserve requirements for banks, administered interest rates and credit controls, towards indirect instruments such as the freeing of interest rates and the use of open market operations.

The restrictions placed on commercial banks over their applications of funds have been eased and both the cash reserve requirement and the statutory liquidity ratio, which lay down the proportion of incremental deposits which must be held as cash deposits or eligible government securities with the reserve bank, are being reduced.

At the same time, the priority sector lending requirements and credit norms imposed on the banks have been relaxed, while controls on interest rates have been curbed. On October 17, most of the remaining controls on bank lending rates – except those over small loans – were scrapped to promote cheaper credit, greater liberalisation in financial markets and more competition in the banking industry.

Perhaps even more important, the government and the reserve bank have signed an agreement to phase out ad hoc treasury bills, on which the government paid a fixed interest rate of 4.6 per cent.

Along with open market auctions, new government money market and debt instruments now include 91-day and 364-day treasury bills, longer dated five and 10-year securities and of zero coupon bonds. In addition, a system of primary dealers is planned to encourage the growth of the secondary government securities market.

The authorities have also unveiled a comprehensive programme to strengthen the state-owned banks and increase competition. New prudential norms have been prescribed and commercial banks have been told they must meet the Basle Accord minimum 8 per cent capital adequacy requirement by 1996.

To assist the process, the Word Bank is working on a new $600m loan for nine selected public banks which will provide an incentive for recapitalisation as well as general development. Three of the banks have already reached the 8 per cent target, but the other six would share a $300m recapitalisation loan. Another $100m would be earmarked for technical assistance and the final $200m tranche would provide a backstop facility for export finance.

After the Rs40bn Bombay securities scandal in 1992 which implicated a number of domestic and foreign banks, Mr D.R. Mehta, Reserve Bank deputy governor, says the central bank has "totally revamped its regulation and supervision system", splitting the two functions and creating an autonomous Board for Financial Supervision.

The government has cut its stake in two large medium-term lending institutions to below 50 per cent and has approved private ownership up to 49 per cent for other state-owned banks as part of their recapitalisation. Nevertheless, banking regulators accept that the weakest public banks may need more assistance.

In order to increase competition, 10 new private sector banks have been approved and eight foreign banks have been given permission to open maiden branches in India.

But the government's critics still say the reforms do not go far enough. They argue that, so long as commercial banking is dominated by state-controlled institutions, real competition will be missing.

Similar concerns are expressed about the insurance sector, which is controlled by two state-owned organisations, the Life Insurance Corporation of India and the General Insurance Corporation. A report on the sector was delivered by the Malhotra committee early this year but is still "under government consideration". Given the size of the two insurers, Mr Tarun Das, director general of the Confederation of Indian Industry, claims that "the only way competition will come is with privatisation".

In contrast, reform of the capital markets is well advanced. Companies have a wider range of financing options now and can tap the international debt and equity markets through Euro issues or global depositary receipts. The Controller of Capital Issues was abolished in 1992, allowing companies more flexibility in pricing new issues, subject to the guidelines of the Securities and Exchange Board of India (Sebi), whose powers have been enhanced.

From the investor's perspective the launch of new private sector mutual funds last year provided another investment vehicle. So far 22 private sector funds have been approved, of which seven are trading alongside funds offered by the Unit Trust of India and public sector banks and institutions.

In the wake of the Bombay securities scandal, Sebi has tried to move quickly to establish itself as a regulator over the equity markets, determined to improve disclosure requirements and increase transparency and investor protection.

The need for a more transparent market has been highlighted by the inflow of funds from registered Foreign Institutional Investors, who have been allowed to buy shares directly since late 1992. Since then 224 FIIs have registered with Sebi and have bought $2.7bn of Indian equities.

But this sudden influx of foreign funds, together with the steady stream of new issues, has thrown a spotlight on the archaic paper-based trading, settlements and stock transfer system which can cause delays of up to six months between payment and the formal registration of share ownership.

To alleviate these problems, Sebi has made regulatory changes, permitting the use of "jumbo" transfer deeds and share certificates and encouraging the expansion of custodial services for foreign investors. It admits that the long-term solution is to move to paperless electronic trading.

In Bombay the stock exchange's 628 members are investing $25m to install an electronic trading system which Mr Bhagirat Merchant, president of the exchange, claims will be running by the start of next year. But fully automated paperless trading is probably some years away.

Other changes could take longer. The Bombay exchange recently agreed to admit corporate members but so far its individual and partnership members have shown little interest in taking advantage of this. To date the exchange has just 10 corporate members.

The exchange says it will eventually admit foreign members, but Mr Merchant admits there is no timetable. "I cannot throw my members to the wolves." Like most policy makers and regulators, he emphasises that India does not like rapid change.

While most industrialists and financiers believe the reforms enacted so far are irreversible, they fear that the liberalisation programme could stall, leaving the Indian markets in an unstable limbo.

These concerns are brushed aside by Mr Shanker Acharya, an economic adviser in the Ministry of Finance. He denies that the programme is losing momentum. Financial reform, he says, is a process which takes several years, particularly when institutional inertia has to be overcome.

FOREIGN INVESTMENT INFLOWS ($m)

	1991-92	1992-93	1993-94
Direct investment	150	341	620
Portfolio investment:			
Indian issues abroad	-	86	1,460
Foreign institutions	-	1	1,665
Others	8	5	365
TOTAL	158	433	4,110

Source: Reserve Bank of India

DIRECT FOREIGN INVESTMENT APPROVALS

	1991	1992	1993	1994 (to June)
Total value Rs bn	5.3	38.9	88.6	24.6
Number of cases	289	692	785	439

Source: Ministry of Industry

The capital market is feeling the strain, writes **R.C. Murthy**

Embarrassment of riches

Overseas investors are finding ingenious ways to tap the buoyant Indian capital market. The growth of dedicated mutual funds in New York and London this year caused India's stock markets to groan under the weight of large capital flows.

More than 200 foreign institutions bought stocks worth $2.56bn over the year to last September, boosting India's foreign exchange reserves to more than $18bn.

However, the overworked custodial services rang alarm bells, saying they were unable to handle the massive inflows.

Cumbersome share transfer procedures brought the delivery mechanism to a virtual halt. The authorities had to devise a modus vivendi of "jumbo" certificates to cover the bulk share transfers and reduce the FIIs' paper work.

To avoid the hassles, overseas investors negotiated their stock purchases directly with companies through so-called "preferential allotments". The Securities Exchange Board of India, the market watchdog, intervened and set a five-year freeze on such transactions, stirring a hornet's nest.

Mr S.S. Nadkarni, SEBI chairman, justified the freeze, saying "it was an effort at establishing a level playing field".

The justification for the freeze was that companies offered discounts to the market price that were not available to other investors. That made the preferential allotments less attractive to overseas investors. "Any investment with a freeze is not a saleable product. FIIs want an unencumbered exit route," said Mr NJ Jhaveri, chairman of I-Sec, a J.P. Morgan-ICICI merchant bank.

> The new route for overseas investors and mutual funds is India paper floated by companies on the international market

The new route for the overseas investors and mutual funds is India paper floated by the corporate sector on the international market. That eliminated, albeit temporarily, the hassles in accessing the local stock markets. Some half a dozen India-dedicated mutual funds mobilised $1.03bn in the first quarter this year, Morgan Stanley accounting for half of it.

The Euro-issue route would be the mainstay for overseas investors as the Indian authorities grappled with structural reforms at the stock markets and created new institutions to handle the capital flows.

The exit of overseas investors was seen as a blessing: pressures eased and there was less chance of the stock market overheating.

The BSE 30-share index is hovering around 4490 after hitting a peak of 4500 on August 31.

The launch of the National Stock Exchange in Bombay exacerbated tensions between the NSE and the Bombay Stock Exchange, India's largest. Opposition to reforms at BSE is subdued and the authorities are to computerise trading and settlement procedures.

Acknowledging the slippages, Mr N. Shankar, BSE general manager, said that the computerisation would be completed in four stages by the end of next year. But the automated NSE has fallen short of expectations. Against a target of Rs10bn of trades a day, the debt instruments traded in the first four months were less than Rs300m a day.

There is not enough business for the 95 brokers. But the NSE's strong point is transparency, which makes it attractive to institutional investors. If the BSE modernises quickly, competition between the two exchanges should sharpen, benefiting the investors. A decision on admitting the corporate members at the BSE would be hastened.

Local brokerages, which are partnerships with unlimited liability, resisted the entry of corporate members with limited liability into their exclusive club. The entry of corporates would pave the way for foreign brokerages.

In the meantime, Jardine Fleming and Australian-owned Marlin Partners, who have set up shop in Bombay, have started making purchases with the help of local brokers. India opened its doors to nine foreign brokers 15 months ago.

The State Bank of India and ICICI are establishing custodial facilities, which should be ready in about a year. The scenario for investment banks has changed. Most merchant banks have set up shop in India.

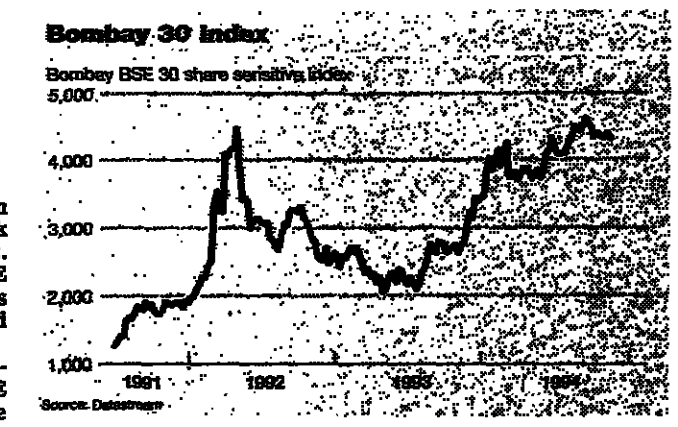
There is friction between local and overseas merchant banks as they consider the ideal structure for overseas merchant banks.

The joint venture between Peregrine of Hong Kong and ITC Classic, a subsidiary of ITC, the Indian affiliate of BAT Industries, floundered on the issue of management control. It was an equal joint venture and ITC Classic was not ready to part with the key one percentage point equity.

Salomon Brothers quietly told its Indian partner, Ind-Global Financial Services, that it would open a branch in Bombay next April. The tenuous relationship between Merrill Lynch and DSP Financial Services is continuing. Capital market modernisation should gather speed next year as competition softens resistance.

Global depositary rates: Page 8

Bombay 30 index



Source: Datastream

■ TELEPHONES

Millions of bells are waiting to ring

For the past year and a half, Ms Boli Medappa been waiting for the phone to ring in the suite which she occupies at the Sheraton hotel in New Delhi, writes GORDON CRAMB.

She is the India representative of US West, the Colorado-based telecommunications company which, like many other industry multinationals, is seeking a role in one of the world's largest potential telephone markets. After several "wrong numbers", US West and other the foreign service providers are starting to receive calls from the Indian licensing authorities.

In the last few weeks a batch of eight cellular licences has been granted with minority foreign participation, two apiece to offer mobile phone services for the first time in the four biggest cities. By the end of the year, tenders should be out for the right to provide basic telephone facilities in any of 18 regions of the country in *competition with the current government* monopoly.

This follows the unveiling in May of a government telecoms policy which recognised that its public sector monopolies would not be able to meet growth in call traffic and, more particularly, demand for lines. India has less than one line per 100 people, one of the lowest levels of phone availability in the world, and would-be subscribers can wait a decade for a residential connection.

Initially, peripheral services such as pag*ing and electronic mail were opened to* private operators in 1992 – "deregulated" is the wrong word, as the bureaucrats at the Department of Telecommunications (DoT) attached a sheaf of requirements to such licences. Pager companies are, to take an example cited by an industry executive in Delhi, obliged to maintain a huge electronic archive of messages relayed months or years in the past.

The cellphone licences initially awarded were challenged in the courts by unsuccessful bidders and there followed a round of musical chairs as part of which Bharti Telecom, a local maker of handsets whose bid has been backed by small-scale European interests, moved the proposed site of its service from Bombay to the area around Delhi.

Bharti won a Delhi franchise as a result but Tata Cellular, an offshoot of India's biggest industrial group, failed to capitalise *on a legal intervention which for a* time put it back in the running. It lost the potentially lucrative Bombay slot to rival ventures backed by France Télécom and the originally excluded Hutchison Whampoa of Hong Kong. This time Tata did not immediately appeal.

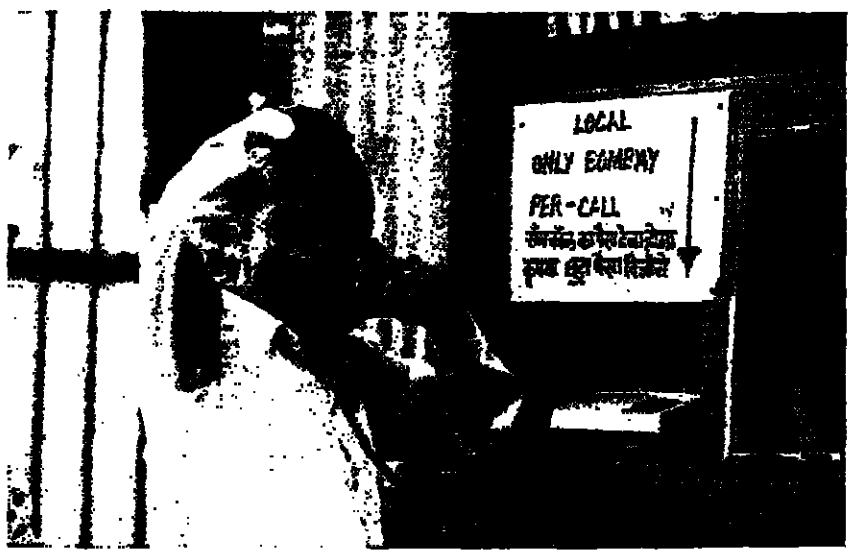
An eccentricity of that contest was that bidders were required to propose a pricing *structure, and were awarded points under* a secret system based in part on how cheaply they said they could offer a service – but the department then fixed a tariff regime and will allow price competition, if at all, only at the margins.

The formula under which revenues will be shared with the government operator is one of the main issues yet to be resolved before tenders are invited for new entrants to provide basic telephone services covering each of 18 regions of the country.

The carve-up, which approximates to India's state boundaries, has got another clutch of telecoms companies from abroad jostling for the prime positions. US West, which has more than $1bn ready to invest in India, has for example long had its eyes on the south of the country where economic growth is vigorous.

Long-distance traffic is to remain a *national preserve for the next five* years, disappointing industry analysts who view that end of the business as more lucrative than providing local links to thousands of villages. Although Ms Medappa says that "we didn't ask for that and didn't expect it," many think interstate services will be opened up earlier than the government has indicated.

*Mr D K Gupta of the Telecoms Commis*sion, the department's policy unit, says India's needs in long-distance communications are less acute than for basic services. The primary role of the new entrants is to supply at least a quarter of the 10m lines which the country aims to add by March 1997. He notes that local services "have not been opened up even in many developed countries. *We are starting with* these."



Bombay caller: India has less than one line per 100 people

The aim will be to provide universal access to a telephone rather than a universal service – in other words, public phones in more remote villages rather than one by every bedside. Wireless technology will help bring down the cost of putting in place a regional network, but there is a *suspicion among Indian commentators* that the private sector operators will seek to skim the cream off the urban business market in order to get the return on capital they seek.

If so, that would remove the DoT's best customers – who by one estimate account for 15 per cent of the lines but 80 per cent of the revenue. But Mr Gupta, satisfied *that the DoT will remain the predominant* operator, also says that it will have its work cut out meeting its own quota of new connections.

To the previously cossetted public sector unions, which have been aghast at the changes, he offers the reassurance: "Whatever we have by way of overstaffing will be compensated for by expansion" in a market which is growing by some 20 per cent a year.

The DoT anyway remains protected by its effectively zero cost of capital and its exemption from tax. Moreover, it controls the selection of its competitors and the terms under which they will operate. The telecoms regulatory authority to be established under the new regime will also report to the minister and will, says Mr Amit Sharma of Motorola, the US equipment manufacturer, "take time to establish a credible record" of neutrality.

The authority, in the process of being constituted, will rule on tariffs, monitor quality of service and ensure connectivity between service providers. Worries over its role, and the commitment of the government to even-handedness, have been fuelled in recent weeks by a spate of upheavals within the ministry.

Mr N Vittal, architect of many of the reforms, departed abruptly from his post as its chief civil servant – he was telecoms secretary and chairman of the telecoms commission – after clashes with Mr Sukh Ram, telecoms minister, who is suspected of being less than wedded to liberalisation. Mr Vittal's replacement, Mr R K Takkar, has expressed his intention, however, to "get cracking" with the programme.

At the same time, movement has been slow on a scheduled relaunch of the Euroequity issue to reduce the govern*ment's holding in Videsh Sanchar Nigam* (VSNL), the international carrier, which was aborted earlier this year because the market saw it as overpriced.

The issue is now to be underwritten, but just as the lead managers were dusting off the prospectus Mr B K Syngal resigned as VSNL chairman. A further delay ensued.

VSNL is one of two opportunities for indirect investment in the sector. A minority stake in Mahangar Telephone Nigam, which controls telecoms services in Bombay and Delhi, is also being floated.

A missed opportunity so far has been a failure to exploit the growth in cable television networks serving the biggest Indian cities.

■ FOREIGN BANKS

Here comes the real competition

The foreign bankers have arrived.

Bombay's business district is buzzing with tales of the six-figure dollar *salaries being paid by some Wall Street* investment banks, luxury hotel suites booked for six months at a time and soaring office rental costs in the Nariman Point business district.

In India's financial capital, merchant banks from around the globe are vying for a share of the fees and underwriting opportunities generated by the Indian government's liberalisation programme and the opening up of the economy.

Many Wall Street and London investment banks have already established a presence in India, often through formal, or informal, links with their emerging Indian counterparts.

Foreign fund managers and stockbrokers are chasing the business generated by the growing number of registered foreign institutional investors and are busy establishing operations in Bombay to service their new clients. Among those which have won regulatory approval to handle foreign portfolio investments in Indian stocks are Kleinwort Benson, Crédit Lyonnais Securities and Australian-owned Martin Partners.

Other stockbrokers who have established a presence in India include James Capel, the HongKong and Shanghai Banking Corporation subsidiary, Nomura Securities from Japan and Smith New Court which is negotiating to acquire a majority stake *in an unidentified Bombay-based* firm.

Jardine Fleming, which also has an Indian domestic merchant banking licence, *has rapidly expanded its* operations in Bombay since they were set up in April 1992 and now employs 100 people including 24 analysts, Mr Mark Bullough, managing director, is bullish on the prospects. "We believe that international investors in emerging markets are still dramatically underweighted and we believe the size of the market, both domestic and international, is going to grow very rapidly in part because the private sector is raising new money onshore and offshore, in part due to privatisations."

Meanwhile the foreign commercial banks are also targeting the sub-continent's increasingly sophisticated corporate customers and the rapidly growing middle class with its appetite for credit cards, automated teller machines and western-style personal banking.

By encouraging foreign banks to establish or expand their Indian operations – and by licensing new private banks with up to 20 per cent foreign equity – the finance ministry and the Reserve Bank of India are gambling that the increased competition will kick-start a long overdue modernisation of India's antiquated and inefficient state-controlled banking and financial sectors.

The authorities believe that foreign commercial and investment banks, with their international experience and wide usage of information technology, will help broaden *the range of services for corporate and* retail bank customers and accelerate the introduction of new technology into the Indian public banking sector.

The former British colonial banks, Standard Chartered Bank, HSBC, and Grindlays Bank – now ANZ Grindlays – together with Citibank of the US have had a long-standing presence in India and were allowed to remain under foreign control when the domestic banks were nationalised, although their growth was severely restricted. Nevertheless they were able to provide a broader and better range of services than most domestic banks and carved out a niche at the top end of the market making healthy profits thanks in part to India's highly regulated interest rate structure which guaranteed large spreads.

*More recently interest rate deregu*lation – introduced as part of the financial sector reforms – has reduced those margins and forced the foreign banks to turn to new areas such as providing custodian services to foreign institutional investors, credit cards for domestic retail consumers and treasury management services and sophisticated derivative products for their corporate customers.

"Since deregulation, margins have come down but compared with international levels they are still above the norm," says Mr Ravish Chopra, HSBC's deputy chief executive in India.

Meanwhile, competition is increasing. Since November 1991, the government has approved requests from eight foreign banks, including Germany's Dresdner Bank and Chase Manhattan of the US, to open maiden branches while permitting branch expansion by existing foreign banks on a case-by-case basis – most existing foreign banks have been given permission to open one or two new branches.

Last month, National Westminster bank became the first foreign financial institution to announce that it was taking advantage of the new private sector bank ownership rules to acquire a 20 per cent stake in HDFC Bank, a commercial bank being set up by the Housing Development Finance Corporation.

Most of the newcomers will target the wholesale and corporate banking areas since they lack the branch network needed to support an assault on the Indian retail sector. But this constraint does not apply to some of the more well established banks which are now actively expanding their branch and retail banking operations.

For example, Standard Chartered has recently announced plans to restructure its existing 24 branches and add new branches in six key cities. Citibank, which has had operations in India since 1902, is also targeting the retail sector, although its limited branch network of six branches *in four cities means it has had to find* other ways to tap the market. It was the first bank in India to introduce car-loans and the first to introduce credit cards in 1990 when it acquired Diners Club. Since then it has added Visa and Mastercharge.

HSBC added a new branch in Bangalore in 1992 and now has 23 branches in seven cities. "We would like to expand further," says Mr Chopra who notes, however, that the Reserve Bank of India is proceeding cautiously. "Licenses are being given out in ones and twos," he says.

Many believe the process has been slowed by the 1992 Bombay securities scandal which implicated a number of foreign banks. In the wake of the scam the Reserve Bank has imposed fines of Rs1.47bn including Rs1.24bn against foreign banks, prompting some foreign bankers to complain privately that they were made scapegoats in the affair and that their fines are disproportionately large. Mr D R Mehta, deputy governor of the RBI, rejects this suggestion and insists that once in India the foreign banks receive equal treatment with their domestic counterparts.

Paul Taylor

Wall Street shows an unbroken confidence in India, reports **Patrick Harverson**

It's almost a love affair

American investors' ardour for India has held up remarkably well, even though their love affair with emerging stock markets has cooled noticeably this year because of the volatile performance of equities in many developing countries.

While the impressive gains of the Bombay market in 1994 has played a great part in sustaining US enthusiasm, Wall Street shows an underlying confidence in India's long-term economic and political future. It reflects the expectation that India's economy will enjoy steady growth over the next decade, and that the government's policy of liberalising the economy and financial markets will remain on course.

US investors participate in the Indian equity market mostly via the specialist country or regional emerging market funds managed by the big banks, securities houses and fund groups. There are also two closed-end funds listed on the New York Stock Exchange – the India Growth Fund and the India Fund.

There are no accurate figures on the extent of US portfolio investment in India, but Mr Derek Hargreaves, an economist with Morgan Guaranty in New York, estimates that of the approximately $5bn that foreign portfolio investors are expected to put into the Indian market this year, "a very substantial proportion" will have come from the US. Although the rate of inflows has dropped from its peak late last year of between $600m and $700m a month to around $450m today, the total is impressive considering that foreign inflows were negligible until a few years ago.

Foreign money has been moving into India in increasingly large amounts ever since the government began to open up the domestic markets to outside capital three years ago as part of its policy of liberalising the country's once almost entirely closed economy.

Ms Joyce Cornell, a fund manager at the Boston-based investment group Scudder (which has about $4bn invested in emerging equity markets) says of the changes in India: "Roughly three years ago they began to open up to the rest of the world, and started to reduce their regulatory regime, which had all but strangled the economy. That reversal, and the change in policy to reduce regulation, reduce tariffs, and open up to world markets has been a big plus."

Mr Vinod Sethi of Morgan Stanley neatly encapsulates Wall Street's view of India's liberalisation policy: "Here is a country that after 45 years is doing the right things." Mr Sethi manages about $2bn of the US bank's $7bn emerging markets equity portfolio, with investments in 170 Indian stocks, including leading companies such as the housing development corporation HESE, the truck manufacturer Telco, and BHEL, the power equipment manufacturer which went public in a quasi-privatisation earlier this year.

Privatisations such as BHEL have played an important role in luring US funds to India, and there are more in the pipeline. Mr Kishor Chaukar, who heads an asset management joint venture set up earlier this year by India's ICI Securities and the US bank Morgan Guaranty, says the Indian government is currently preparing a sixth round of disinvestment in industries such as steel, oil, and telecommunications. "Every three to six months the government is pushing a good bit of equity into the stock market," he says.

The main attraction for US investors, however, is still the expectation of healthy economic and corporate earnings growth. The US broking house Oppenheimer, which manages the NYSE-listed India Fund, forecasts that corporate earnings will grow by 35 per cent in the current fiscal year. Most economists expect India's economy to grow at a rate of 6 to 8 per cent over the next five to 10 years.

As Mr Sethi points out, there is considerable upside potential in Indian stocks because there is so much room for the private sector to grow. "The private sector represents about 14 per cent of GNP, and is growing at twice the overall GNP rate. So for every incremental GNP increase, the corporate sector is doing twice as better."

Investors also have the chance to benefit in the expansion of an already vast consumer sector, says Mr Sethi. "India also has a middle class of 250m people today – as big as all of the US. This middle class is likely to double in size over the next 10 to 15 years... Stock market players make money on the rate of change, and the rate of change in India is so high."

Investing in India, however, is not without its risks. The stock market scandal of 1992, which pricked a speculative bubble and interrupted a bull market, left some ugly scars, and the quality of securities regulation remains a worry for overseas investors.

There are also concerns that the poor state of the country's telecommunications, energy and transport infrastructure will slow the economy's growth. The stock market infrastructure is another source of worry, says Mr Sethi of Morgan Stanley. "Here is a capital market used to retail investing, but its composition is moving toward institutional investing, and the custody infrastructure is grossly underdeveloped."

Political risk is another factor for US investors to consider. Yet, although India has seen several of its most prominent democratic leaders assassinated, has endured a series of violent clashes between different ethnic and religious groups, and lives with permanent military tensions on its border with Pakistan, US investors are surprisingly sanguine about the political risks inherent in investing in the country. "It is a much more homogeneous society than we realise from outside," says Ms Cornell of Scudder. "There are ethnic tensions, but there are in the US too. They are not likely to shake the system to its roots."

However, Ms Cornell does worry about whether liberalisation is proceeding too slowly. "They've done the easy stuff, but they've got the hard stuff ahead of them. There is a lot of overmanning, and the laws make it difficult to lay people off, so there are big inefficiencies... The pace of change is very ponderous."

Yet, Mr Terry Mills, who runs J.P. Morgan's Indian corporate finance unit in London, says that the slow progress of liberalisation is not necessarily a negative. "India has been criticised for not changing fast enough. My view is that there may be some benefits to not changing too fast – it's giving the economy and the social environment time to adapt... It also makes it easier to control inflation."

Too slow or not, the majority of US institutions seem confident that the changes in India are irreversible. "They've gone beyond the point of no return," says Ms Cornell. Also, the economy appears set on a path of sustained growth. Over the long term, that spells plenty of opportunities for overseas investors. As Mr Sethi of Morgan Stanley puts it: "You will have some broken dreams in the emerging markets universe as some countries don't live up to expectations. But this thing [in India] is for real."

Martin Brice describes a new way to buy shares

Receipts valued at $10bn

India's growing attractiveness to international investors is shown by the dramatic increase over the last two years in the purchase of shares in Indian companies through the medium of Global Depositary Receipts.

These documents, issued by depositary banks, are used to facilitate purchase of shares in the issuer's home market. Since the first Indian GDR was issued in 1992, the total value has risen to $10bn. About $4bn of this is based on the shares of 50 Indian companies. Some $2.1bn of Indian GDRs have been issued this year alone.

Mr David Gibbons, head of India research at James Capel said: "India has streaked ahead of China. Using GDRs it has moved with astonishing rapidity and if that continues India will have a huge advantage."

Mr Ian Hannam, director of Jardine Fleming, the investment bank, says: "The great thing about corporate India is that the shackles are now coming off. You have the potential of huge growth with a proper regulatory framework to work within."

GDRs were pioneered in 1990 by the US Citibank, but today much of the GDRs business is sourced from London-based investment banks and 90 depositary receipts are traded via SEAQ International and listed on the Luxembourg stock exchange. In August, the London Stock Exchange changed its rules to allow GDRs to be listed there.

GDRs and the shares they represent are traded independently, which often means they fetch a lower or higher price than the shares in the home market. The GDRs are easier to trade and settlement is simpler than dealing in shares on the local market.

According to Mr Hannam, India has many attractions over other emerging markets, particularly the existence of a middle class as big as the population of the US. It also had a recognised legal and accounting framework for the ownership of assets and the use of the English language."

Mr Tristan Clube, director of Edinburgh-based Martin Currie Investment Management, which runs the $270m India Opportunities investment fund, agrees: "We are seeing for the first time the spending power of the vast middle class."

This middle class is growing at 12 per cent a year, says Mr Jeff Chowdhry, a director of BZW Investment Management, which runs the BZW India Fund. "This is creating incredible demand for domestically-produced goods. This consumer demand is being unshackled by liberalisation."

The liberalisation process was irreversible, he added, predicting that the earnings of Indian companies would grow by 35 per cent each year for the next two years.

Expectation of high returns has prompted many international investors to buy GDRs issued by Indian companies, but these are by their nature restricted to big companies with a market capitalisation of more than about $300m. Mr Chowdhry said: "The value in India and the thing that makes it most attractive is not large capitalisation companies, it is medium-sized companies."

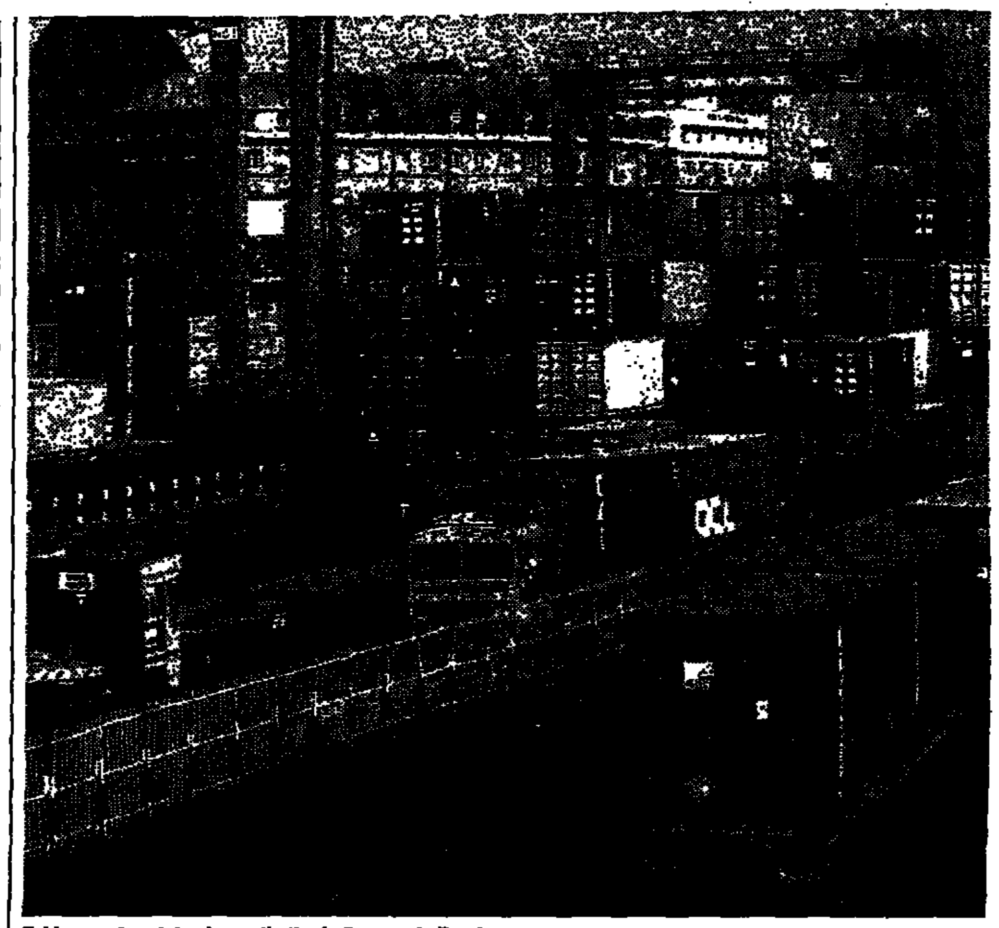
Shares in big companies were selling on a price/earnings ratio of about 30 times, whereas medium-sized companies sold on a profits/earnings ratio of 15 times, making them much cheaper as investments.

International investors can also gain access to Indian equities by buying into investment funds. Mr Clube of Martin Currie points to the growth in interest in Indian equities by referring to the increase in the number of funds. When his India Opportunities fund was launched last year there were a handful of similar funds. Now there were about 22.

GLOBAL DEPOSITARY RECEIPTS 1994 ($m)

ISSUER	LEAD MANAGER	CAPITAL
Arvind Mills	Goldman Sachs	100.0
Century Textiles, Industries	Paribas/S.G. Warburg	99.9
CESC	Banque Paribas	89.2
Core Parentals	Jardine Fleming	80.0
DCW	James Capel	24.9
Dr Reddy's Laboratories	Baring Bros	48.0
EID Parry (India)	Banque Paribas	40.0
Finolex Cables	BZW/Merrill Lynch	55.0
Garden Silk Mills	Rothschild	44.9
Grasim Industries	BZW	89.9
Great Eastern Shipping Co	Jardine Fleming/HSBC	99.9
Hindustan Devt Corp	BZW	65.0
Indian Aluminium Co	James Capel	60.0
Indian Rayon Industries	Kleinwort Benson	124.9
Indian Gulf Fertilisers	BZW/JP Morgan Securities	109.0
JCT	Merrill Lynch	45.0
Ranbaxy Laboratories	Goldman Sachs	99.9
Reliance Industries	Morgan Stanley	300.0
Sanghi Polyesters	James Capel	44.9
SIV Industries	Jardine Fleming	45.0
Tata Electric Companies	Goldman Sachs/IFC/Citicorp	74.9
Tata Eng'g. Locomotive	CS First Boston/M. Lynch	115.0
Tube Investments of India	S.G. Warburg	49.9
United Phosphorus	Morgan Stanley	55.0

Source: Citibank



Evidence of sustained growth: the Indira port in Bombay

FACT FILE ON INDIA

■ Area and population

Population (m)

1989	90	91	92(e)	93(e)
823	841	856	873	892

(e) official and EIU estimates

Area (sq km)........... 3,287,263*
*1,269,219 sq miles

■ Main towns

Population in million, 1991 census (urban agglomerations)

Bombay	12.6
Calcutta	11.0
Delhi	8.4
Madras	5.7
Hyderabad	4.3
Bangalore	4.1
Ahmedabad	3.3

■ Language

The Constitution provides that the official language of the Union shall be Hindi. The English language will continue to be an associate language *for many official purposes.*

■ Religion

Hindu (83%); Moslem (11%); Christian (2%); Sikh (2%); Buddhist (1%); Jain (1%)

■ Currency

Currency: Rupee (R = 100 paisa). Annual average exchange rate 1994: Rs31.14:$1; Rs47.85:£1

■ Exchange controls

Indian currency may not be imported or exported. There is no restriction on the amount of foreign currency imported, but amounts over 1,000 must be declared, and the amount taken out may not exceed the amount taken in. All money must be exchanged through authorised banks and money-changers. Foreign exchange receipts should be retained.

■ Visa requirements

All foreigners wishing to visit India need a valid passport and a visa before arrival. Normally, Indian missions abroad grant a multi-entry visa valid for 120 days to tourists. The visa is valid for entering India within six months of the date of issue.
Business travellers should apply through their companies for a multi-entry business visa, which is normally given readily with a validity of one year but with a maximum stay of 120 days.

■ Working hours

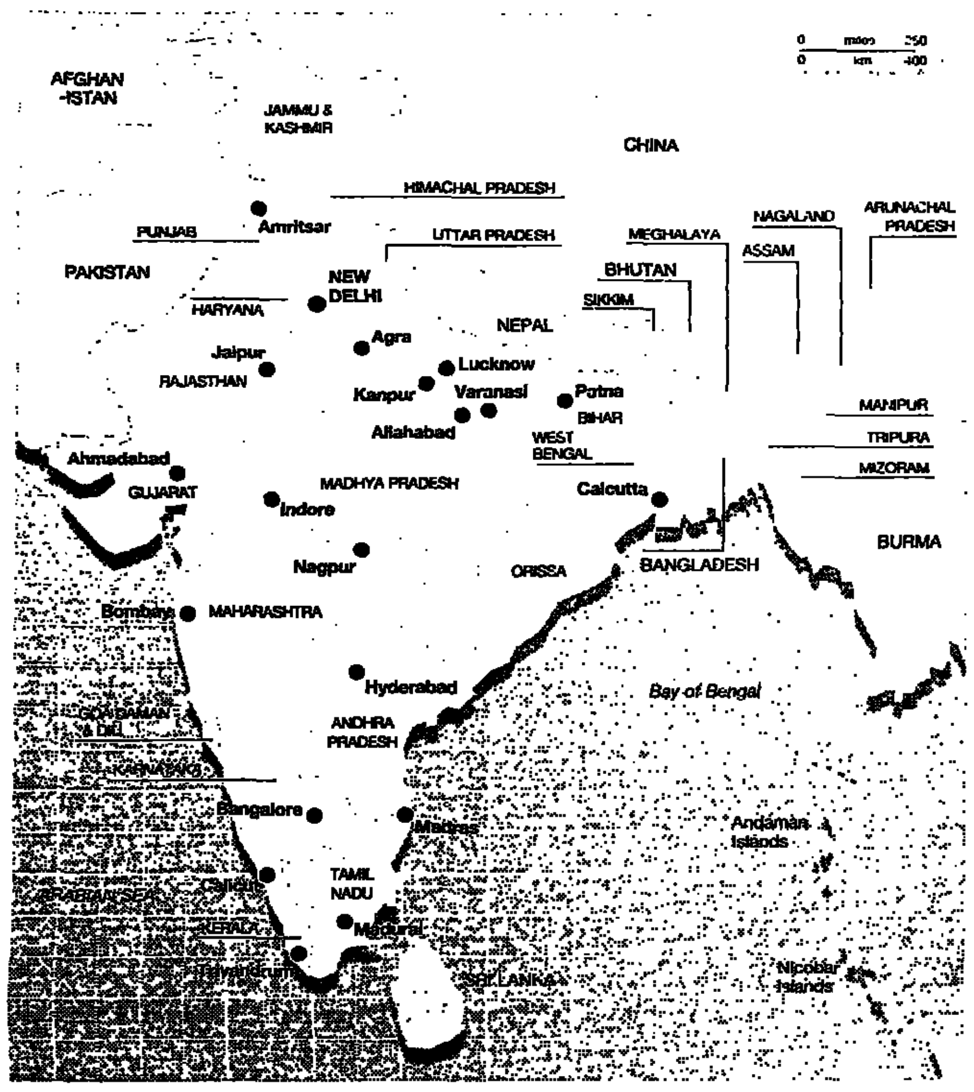
Business: (Mon-Fri)
1000 - 1700 in Delhi and Madras;
0930 - 1700 in Calcutta;
1000 - 1730 in Bombay.
Banking: (Mon-Fri)
1000 - 1400, (Sat) 1000 - 1200 in Delhi, Calcutta and Madras;
(Mon-Fri) 1100 - 1500, (Sat) 1100 1300 in Bombay

■ Public holidays

The public holidays observed in India vary locally. The dates given below apply to Delhi. As religious feasts depend on astronomical observations, holidays are usually declared at the beginning of the year in which they will be observed. It is not possible, therefore, to indicate more than the month in which some of the following holidays will occur.

1995: 26 January (Republic Day), March (Holi), 3 March (Id al-Fitr, end of Ramadan), March/April (Ram Navami and Mahabir Jayanti), 14 April (Good Friday), May (Buddha Purinima), 10 May (Id uz-Zuha, Feast of the Sacrifice), 31 May (Muharram, Islamic New Year) August (Janmashtami), 9 August (Birth of the Prophet), 15 August (Indepence Day), October/November (Dussehra, Diwali and Guru Nanak Jayanti), 2 October (Mahatma Gandhi's Birthday), 25-26 December (Christmas).

Taking it easy at the Hindu holy place of Varanasi on the river Ganga



■ Climate

Mainly tropical, but varies greatly from extreme heat in the tropics of the south and the desert of the north-west, to the extreme cold in the northern Himalayas. Nov-Mar is bright and dry in the south, but cold in the north.
Bombay is hot and humid; Delhi is dry. Apr-Jun is hot and dry in the south, and more temperate and cool in the north. There are heavy monsoons in the south-west in Jun and in the south-east in Oct-Nov.
Weather in New Delhi (altitude 218 metres)
Hottest month, May, 26-41 C (average daily minimum and maximum); coldest month, January, 7-21 C; driest month, November, 4 mm average rainfall; wettest month, July, 180 mm average rainfall.

■ Time

5 hours 30 minutes ahead of GMT

■ Ministries

Prime Minister's Office: South Block, New Delhi 110 011; tel. (11) 3012312; telex 3161876; fax (11) 3016857.
Ministry of Agriculture: Krishi Bhavan, Dr Rajendra Prasad Rd, New Delhi 110 001; tel. (11) 382651; telex 3165054; fax (11) 386004.
Ministry of Atomic Energy: South Block, New Delhi 110 011; tel. (1) 3011773; telex 3166182; fax (11) 3013843.
Ministry of Civil Aviation: Sardar Patel Bhavan, New Delhi 110 001; tel. (11) 351700; telex 3165976; fax (11) 344935.
Ministry of Commerce: Udyog Bhavan, New Delhi 110 011; tel. (11) 3016664; telex 3163233; fax (11) 3013583.
Ministry of Finance: North Block, New Delhi 110 001; tel (11) 3012611; telex 3166175; fax (11) 3014420.
Ministry of Industry: Udyog Bhavan, New Delhi 110 011; tel. (11) 3011815; telex 3166565; fax (11) 3011770.
Ministry of Power: Shram Shakti Bhavan, New Delhi 110 001; tel. (11) 3710271; telex 3162720; fax (11) 3717519.
Ministry of Tourism: Transport Bhavan, Parliament St, New Delhi 110 001; tel (11) 3711792; telex 3166527; fax (11) 3710518.

□ *Research by Peter Cheek*

Steel makers are now less terrified of imports, writes **Kunal Bose**

Room for everybody

The fear that lower duties on imported steel would harm domestic steel producers has proved unfounded.

The duties are being steadily reduced as part of the federal government's trade reforms programme.

According to Mr J M Bhasin, director of the government-owned Rashtriya Ispat which owns a 3m tonne shore-based steel plant at Vizag, steel imports in the current year will exceed 1.5m tonnes, compared with 1.01m in the year to March 1994.

Mr Bhasin explained, however, that imports are rising because of the growth in Indian domestic demand for steel. Since this is also benefiting the home producers, the latter are no longer worried by imports.

With almost three years of recession at an end, Indian steel production, according to the steel ministry, is likely to go up to 17.84m tonnes in the current year from 15.13m tonnes in 1993-94 when there was a marginal fall in output.

Besides some high grades of steel which are not produced locally, India imports billets to be converted into finished products.

The Indian steel producers know that import duties on steel will be further reduced from the present average of 50 per cent. According to Mr J Mehra, chairman of Rashtriya Ispat, "the Indian manufacturers can meet the challenge of a lower import duty regime". In a reference to CIS countries, he added: "we must guard ourselves against the dumping of steel by countries which have excess capacity and which need foreign exchange badly."

Following forceful representations by local producers, the government has simplified procedures for filing petitions against dumping. However, Mr B Muthuraman, vice president of Tata Iron & Steel, is concerned about the import of a substantial quantity of seconds at heavily discounted prices. "This is particularly going to hurt the local producers of hot rolled coils and electrical sheet," he says.

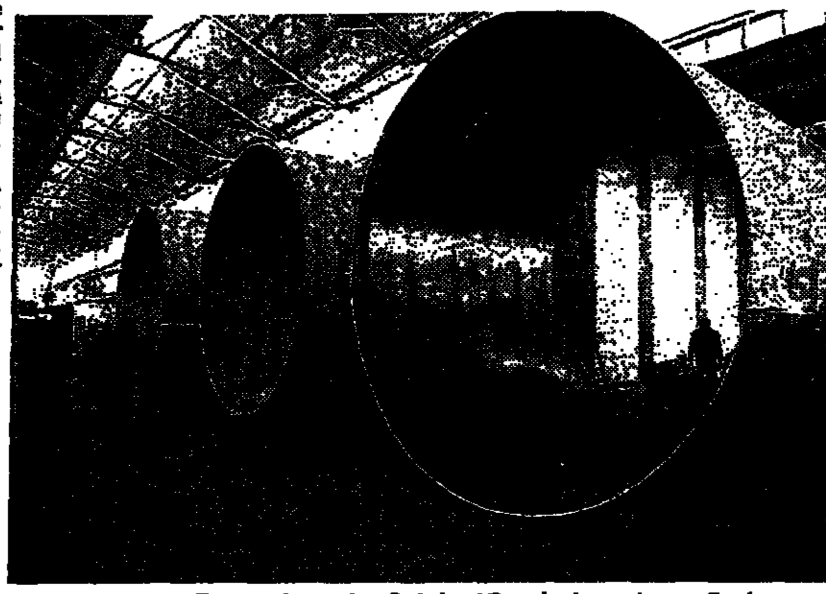
The removal of all controls has seen Indian iron and steel export rising sharply from 910,000 tonnes in 1992-93 to 2.22m tonnes in 1993-94 worth Rs17.64bn (£353m).

Imports include not only low value items such as sponge iron and pig iron, but its steel export basket now includes cold rolled and galvanised sheet and coils. The recession had forced Indian manufacturers to the export market.

"True, we went for export in a big way because of the recession at home. It will not do the industry any good if it is to export only when there is a demand shortfall within the country. The experience of the last two years should lead the industry to adopt the strategy to export about 20 per cent of its production," said Mr Muthuraman.

The world trade in steel is about 125m tonnes and it should not be difficult for India to have a share of about 3 per cent of it, according to Mr Bhasin.

While India is principally targeting China, a major importer of steel, and south and south-east Asian countries, industry officials think that there is scope for export of steel to the US, Europe and Japan. Mr Santosh Mohan Dev, steel minister, is trying to convince the government that "suitable incentives should be given to steel export".



Rolling out of recession: Godrej and Boyce's pipe works near Bombay

Nearly 4.7m tonnes of finished steel capacity, involving an investment of Rs84bn, is in various stages of implementation. Most of the new projects will be exporting a good portion of their output.

The export capability of the Steel Authority of India which owns four integrated steel plants will improve considerably as it completes the Rs70bn modernisation programme. The same will happen with Tata Iron & Steel, which is investing heavily in modernisation and capacity expansion.

India's biggest steel biggest exporter is the three-year old Rashtriya Ispat plant, incorporating the latest technology. Industry officials point out that as a result of the deregulation of steel in July 1991 and the removal of controls on price and distribution of the metal in January 1992, the steel sector is inviting new investment.

The induction of the state of the art steel making technology in the country has become easier with the government allowing up to 51 per cent foreign equity investment in steel projects.

According to the steel ministry, the government has so far given approval for foreign equity investment of over Rs8.60bn in various projects. Although India is rich in iron ore and coal, the two principal inputs for making steel, the per capita consumption of steel here is less than 25 kilos a year, compared with the world average of 136 kilos.

But industry officials expect that in the next five years, the demand for long products, used mainly in construction work, will grow at 6 per cent a year and that flat products, used by the automobile, white goods and engineering industries will rise by 10 per cent.

The government predicts that by 2002 the demand for steel will be about 31m tonnes a year. The country's nominal steel-making capacity is about 27m tonnes. But of the 7.5m tonne capacity in the mini steel sector, half is sick.

Mr Mehra said, "if we have to satisfy a demand for 31m tonnes by 2002, then we must start planning for the creation of an additional capacity of at least 8m tonnes of steel now. Steel in India is considered a safe investment. It should not be difficult to mobilise resources to fund the creation of new steel-making capacity."

The initiative for the new capacity creation has to come from the private sector since the government has decided not to build any new steel plant.

Paul Taylor reports from the southern state of Karnataka

Silk, coffee and silicon chips

Karnataka's chief minister, Mr M. Veerappa Moily, boasts that the south Indian state has "substituted the red carpet for red tape" in its dealings with potential new investors. New foreign investments, he says, are handled by a single agency and cleared within 30 days.

Judged by the number of Western high-tech companies which have operations in Bangalore, Karnataka's capital, Mr Moily's aggressively pro-business administration is succeeding, in this area at least.

Over the past decade Bangalore has reinforced its claim to be India's Silicon Valley. Among the multinationals which have established operations in the leafy Bangalore environs are 3M, AT & T, Digital Equipment, L M Ericsson, Hewlett Packard, IBM, Motorola, Sanyo, Siemens, and Texas Instruments. Some are wholly owned subsidiaries, others joint ventures with Indian partners.

India's eighth largest state in terms of both land area and population, Karnataka generates about Rs23bn of annual revenues from electronics and is responsible for about a fifth of India's total electronics output. A tenth of its 47m population lives in Bangalore, a city known for its pleasant climate and friendly people.

Karnataka was one of the first states in India to industrialise and pioneered hydro-electric power in South-east Asia with the building of the Sivasamudram project in 1902. Ironically, although electric power was one of the catalysts for the early industrialisation of the state, today a shortage of power is one of the main constraints on economic growth.

The big surge in industrialisation came in the 1940s and 1950s when the Indian government decided to base several big public sector companies in Bangalore including Bharat Electronics and Bharat Earth Movers, Hindustan Aeronautics, Hindustan Machine Tools and Indian Telephones Industries.

These companies have played an important role in the state and have provided a strong magnet for ancillary companies, drawing in small-scale industries which could work as sub-contractors to the big industries.

Today, Karnataka's main industries include electronics, computer engineering, computer software and services, telecommunications, aeronautics, machine tools, watch-making, electrical engineering, aluminium, steel, cement, sugar, food processing, textiles and mining.

Other factors which have contributed to Karnataka's industrial growth have included an abundance of natural mineral resources including high grade iron ore, manganese and gold, a well developed network of research and research establishments, a large pool of engineers and a high literacy rate of 56 per cent compared with a national average of 52 per cent.

Bangalore, which is 3,000 feet above sea level, also benefits from a particularly pleasant climate and relatively light rainfall. It is green with parks and tree-lined roads – quite unlike other big industrial or business centres, such as Bombay. It has become a popular city with young educated Indians who frequent Bangalore's many western-style bars, cafes and boutiques.

Chief minister Veerappa Moily: red tape slasher Picture: Rakesh Sahai

There is therefore a large pool of talent which foreign companies in the electronics and computer software sectors in particular are keen to tap. The Indian Institute of Science, the Indian Space Research Institute, National Aeronautic Laboratory and the Central Machine Tool Institute are all to be found in Bangalore together with a large number of engineering colleges, training centres and universities.

Bangalore in particular has become known as an important source of software engineering talent since the mid 1980s when many US technology companies realised that demand was far outstripping the supply in the US.

Although wage rates are rising rapidly, foreign business leaders say it is still possible to hire graduate engineers for between $1,000 to $2,000 a month, a fraction of the cost of similarly qualified employees in the US.

As a result many US, European and Asian information technology and telecommunications companies have established computer services operations in the state, mostly to service their internal software or chip design requirements. Foreign investors say they are attracted by the state's relatively good record in terms of labour relations, and usually harmonious community relations as well as the Karnataka government's positive attitude towards investors.

"Karnataka has been a magnet for foreign investment," says Mr J C Lynn, the state's chief secretary. Among companies which have recently chosen to site their Indian headquarters in Bangalore are Brooke Bond, Lipton and Britannia.

Under Mr Moily, whose tenure in office began in late 1992 after his predecessor was ousted because of alleged corruption, the state has drawn up a new development plan.

As part of its industrial policy the state established the first "electronic city" near Bangalore in the early 1980s and is developing two more electronic cities at Mysore and Dharwad. But despite this focus on electronics, Karnataka has also made considerable efforts to diversify its industrial and agricultural base. At Mangalore, Karnataka's main port, a large oil refinery has been built and is now being expanded. Similarly there are plans to expand steel and cement production elsewhere in the state.

Irrigation schemes in the northern part of the state have allowed sugar-cane and rice to be grown in some areas, and the state is rich in teak, rosewood and sandalwood, particularly from Mysore, Karnataka's beautiful and historic second city. Karnataka accounts for nearly half of India's silk production and 80 per cent of the nation's coffee production. Sericulture employs about 200,000 people in the state and generates annual revenues of about Rs2.8bn including RS1.6bn of foreign exchange earnings.

In industry, however, the rapid growth and development have brought new problems – in particular, shortages of power, water and transportation.

Bangalore's airport has been brought up to international standards and there are tentative plans to alleviate the city's traffic problems by setting up a 15 mile elevated mass transport system.

However, the top priority is to meet industry's appetite for electrical power which already outstrips supply. As a result many companies install their own generators. Mr Lynn, however, insists that the state can expand its power capacity.

To sharpen their competitive edge garment exporters are increasingly seeking collaborations with their foreign customers. The advantages accrue to both sides. Customers who are confronted with a shrinking manufacturing base in their country find India a low cost sourcing point. The Indian exporter gets an assured buyer on a long term basis and much-needed technical assistance.

Examples abound: Gruppo La Perla and Mafatlal Industries, a Bombay based textile company, have recently invested Rs135m in a modern garment factory near Delhi. The factory is equipped with imported machines and its production is being supervised by Italian technicians. Most of the fabric is supplied by Mafatlal.

The garments are made exclusively for export and will be sold overseas under La Perla's label.

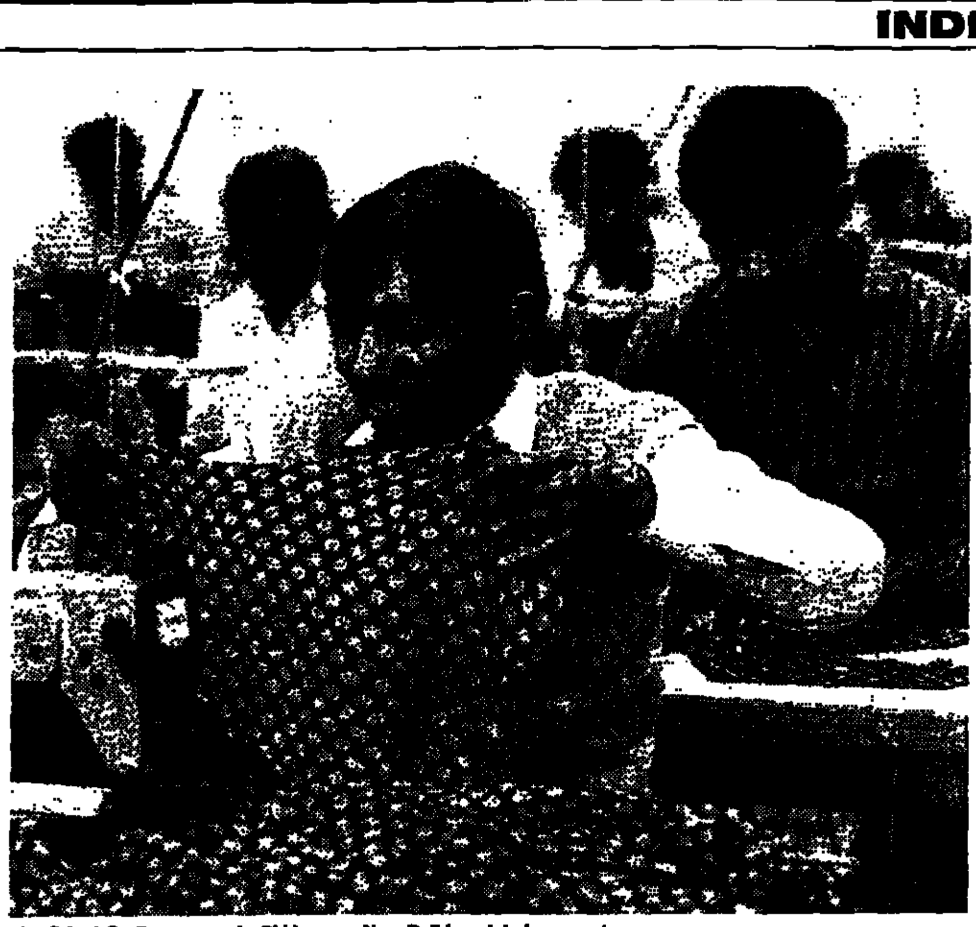
In another Rs300m venture, Mafatlal is taking technical help from the German company Schiesser to make premium quality knitted clothes. Schiesser has agreed to buy back half of the total production.

These collaborations highlight the current concerns of the textile exports industry. It faces the prospect of a free market since the quota system of the existing Multi-Fibre Arrangement is to be phased out over a 10 year period once Gatt comes into being. (Under bilateral agreements, most Western countries impose annual quotas on certain textile items from India).

The government has warned exporters that the absence of quota restrictions will not necessarily lead to higher export sales. Exporters will have easier access to markets, but equally importing countries will have the freedom to shop around. Unless Indian exporters can match their competitors on price and quality, they could lose out.

Textiles and garments account for 26 per cent of the country's total exports. The industry has been consistently surpassing targets in the last three years. Export sales in the year to March 1994 were $8bn, reflecting a 21 per cent growth over the previous year.

The ministry of textiles is confident that the $9bn target for the current year will be achieved. Official figures show that exports in the first quarter up to June 1994 have increased by 19 per cent over the same period last year. Yet exporters are worried that this year's performance may not be as spectacular as in the previous years. Garment exports in the first quarter were $890m, about $70m more than in the same period last year.



The Orient Craft company in Okhla, near New Delhi: mainly for export

Naazneen Karmali studies garment export tactics

Weaver to wearer

Textile exports Rs.bn

Year	Value
1991-92	5.8
1992-93	6.6
1993-94	8.0
1994-95 (target)	*9.0*

Source: Export Promotion Council and Commodity Boards

But according to Mr Arvind Pradhan, director of the Apparel Export Promotion Council (AEPC), exporters do not have as many orders in hand as they used to. At a recent buyer-seller conference in Europe organised by the AEPC, "the response was poor", says Mr Pradhan. The AEPC has also organised trade delegations to countries which are potential markets, such as Latin America; it is urging exporters to look for new niches and non-quota items like industrial garments and infant wear.

But quotas, particularly for the US which is a big customer, have not yet been fully utilised. Exporters say that increased raw material costs, chiefly yarn and fabric, have made their prices uncompetitive in the American market. In August, a declaration by the US Consumer Products Safety Commission that Indian-made chiffon skirts were inflammable led to consignments being recalled and a ban on imports.

The government has taken steps to boost exports. For example, importing textile machinery, both new and second hand, no longer requires a licence and import duties have been brought down to 25 per cent. Exporters are being asked to step up value addition. Though budget garments and grey fabrics drive volumes, they are more price sensitive. In this segment, India's big competitors are China, Pakistan, Bangladesh and Sri Lanka.

Exporters say that the measures taken by the government are not enough. They would like local supplies of processed fabrics to be of consistent quality and the freedom to import fabrics required against export commitments.

Some manufacturers have begun to take advantage of the new rules and are investing in new technology. Large composite mills have brought in second hand machinery from Europe and Japan. "Improving quality by upgrading technology is the only way to survive and grow," says Mr Kamlesh Kapadia, Mafatlal's vice president, exports. Joint ventures with foreign textile companies, he adds, will contribute to improving the product mix.

Jimmy Burns probes conditions in the booming light industry sector

Bare-footed boot-makers

There is a flourishing equity market in Bombay, and a rash of high-tech companies in Bangalore. Foreign trade missions and multinationals are knocking on government doors. So much for the new India.

But visit the tanneries of Kanpur, or the brass makers of Moradabad, and you glimpse another India, where small is not so much beautiful as rather ugly. Notwithstanding a good export performance, people in these places – including young children – work in conditions which the developed world banished from the factory floor decades ago.

Investment in technology, training, and health and safety is kept to a minimum. Instead the focus is on low wages payable to a seemingly endless supply of unskilled destitute labour which still manages to churn out "quality" hand-made goods to order.

The tanneries and the brass workshops belong to India's small scale industrial sector which has for decades retained an important and privileged status in the local economy.

Small scale industries employ 139m people, account for 35 per cent of total manufacturing output, and some 34 per cent of total exports.

Since independence the sector has been highly protected largely for socio-political reasons. It has become a kind of informal welfare agency capable of providing jobs to the country's massive population, but providing little incentive for investment in new production techniques or a safer working environment.

Now, however, the sector is facing a fresh challenge. As the Indian government opens up the country to foreign investment and gradually deregulates the economy, small scale industries are being given the opportunity to prosper, but in a potentially much more competitive environment.

As Mr A Arunachalam, the minister for state for industry, put it recently: "There are immense opportunities for small scale industries in global markets...but they will have to upgrade technologies and the quality of their products, and formulate strategies to that end."

The scale of the challenge facing India's small scale industries was underlined recently by research jointly undertaken by the National Council of Applied Economic Research and the German Friedrich-Naumann-Stiftung.

The research, one of the most comprehensive studies ever undertaken of the sector, found that over the last four decades the small scale sector had both grown and diversified considerably, made a significant contribution to employment generation and exports, and to a large extent managed to meet the consumer demand of the Indian masses even if the products sold on the home market were generally of poor quality. The sector produces a range of more than 7,000 products, a large number of which are consumer items.

The overall conclusion, however, was that the sector remained structurally weak and highly dependent on Government help and protection. The report noted: "The sector is beset with several problems, such as sub-optimal scale of operations, sickness and morbidity, technological obsolescence and poor market image. A bandwagon approach leads to overcrowding in the same lines of production. Consequently, there is intense *inter se* competition, lower capacity utilisation and compromise on quality and standards to make way for price cutting. The small scale sector has not been encouraged to grow vertically and face competition."

The following were among the findings of the research carried out among a sample of 657 small scale companies located in various parts of India:

- Low level technology: 56.62 per cent of companies had a manual manufacturing process; 36.66 per cent were semi-automated; while only 4.72 per cent were fully automated. Most companies said they could not afford testing facilities, while 83 per cent of respondents said they did not perceive the non-availability of trained staff to be a problem.
- Limited institutional finance: Inadequacy of credit together with excessive and cumbersome bureaucratic procedures in the way of obtaining it was identified as a major problem by many of companies surveyed. It was pointed that one of the major impediments in getting adequate finance was the lack of trained banking staff which in turn led to a mistaken assessment of the companies' requirements.
- Poor infrastructure: Companies faced problems of obtaining industrial space, as well as inadequate supplies of power and water. Other weak areas identified were transport, warehousing and effluent disposal.

Some of the problems identified in this wide ranging research are only too evident in towns such as Kanpur and Moradabad, where whole communities have grown up around local small scale industries with mixed benefits in social and economic terms.

Tanneries and brass factories reveal an India where small is not always beautiful

In Kampur, one of the more "successful" small scale companies is Sultan Tanneries. Sales last year at Rs300m were 15 per cent up on the previous year, with 45 per cent of manufactured "tanned" leather products exported.

Senior executive Mehmood Alam resists the suggestion that his company is a sweat shop. His are the best tanners in the world, working for a tenth or more of what they would be paid in Europe or the US. (His investment in machinery has been limited and will only be significantly increased if and when this comparative wage advantage is lost.)

The tanners do, however, walk around bare footed and without protective clothing in an unfiltered atmosphere heavy with toxic fumes and liquids. None of them wears the safety leather boots which they are tanning and which are exported to the UK for use on the factory floor of British chemical companies.

Mr Alam insists that as one of the bigger companies in Kanpur he cannot afford to play "hide and seek" with government health inspectors and pollution controllers. But when I visited the factory young boys were working on the production line and the pollution control equipment was switched off.

Success and squalor coexist too in Moradabad, a town whose brassware exports were valued at Rs6.5bn last year, a 30 per cent increase over the previous three years.

One of the oldest and most successful companies, C L Gupta & Sons (established 1889), boasts an ability to respond quickly to customer specifications on anything from a candle stick to a bed. The company's quality hand crafted brass products made in India are increasingly seen in US design shops and European antique sales. They are made by workers, including children, earning Rs25 – Rs35 a day and lacking the face and body protection which is compulsory under western health and safety standards.

In Moradabad, a UN sponsored training centre run by government officials is trying to bring about an improvement in the quality of metal finished products.

And yet, in a typical Indian paradox, Moradabad brass makers complain that their export efforts are hampered by constant power shortages and bad transport communications with New Delhi.

What the government has promised so far is less bureaucracy and better managed credit facilities. It is also opening up local industry to foreign investment by liberalising, among other things, its policy of product reservation whereby selected products can only be manufactured by small scale Indian companies (although multinationals are not yet allowed full access to the much coveted icecream market). The hope is that investment will improve productivity without harming jobs.

It remains to be seen when and how a new breed of entrepreneur can emerge from the sweat shops of Kanpur and Moradabad.

Bihar's poverty is the worst in India, writes **Gordon Cramb**

Where bureaucrats thrive

Bihar's riches are underground – coal, bauxite, copper, mica – and in its fertile soil. But its poverty is just about everywhere. Aside from the privileged mining and industrial workers who occupy neat rows of company housing, the only significant number who can live in any comfort are the bureaucrats in Patna, the state capital. Their swollen ranks and often amply lined pockets attest to an administration which is certainly corrupt and arguably bankrupt.

Doctors tell of going unpaid for months on end, until they can find a civil servant prepared to authorise the release of the funds – for a consideration.

Billions of rupees in central government grants are unspent every year because Patna cannot find the matching funds these require.

In the latest financial year the planned provision of some Rs19bn, already trimmed from Rs22bn in 1993-94, was slashed to Rs7.5bn for this reason.

Such disbursements from Delhi as do come through are frequently diverted to fund current spending – primarily on the salaries of Bihar bureaucrats, who in many cases earn more than their central government counterparts. If the money makes it to the upliftment projects for which it is intended, it may first have spent a while in state coffers aiding cash flow.

For many on the streets of Patna – and the streets are home to many – cash flow means a few rupees garnered from a passing motorist. More than 40 per cent of the populace live below the poverty line, compared with the less than 30 per cent average for all India.

And there is no sign that anything will improve, except

Chief minister Laloo Prasad Yadav Picture: Rakesh Sahai

perhaps in the southern half of the state where the mining and industrial activities are concentrated. A deal in September between the central and state governments provided for the establishment of an autonomous council which will administer much of the affairs of Jharkhand, the southern region.

The agreement was the culmination of a struggle for self-determination waged by tribal peoples in the region and which predated independence from Britain. Many local businessmen, tired of seeing their taxes disappear north to Patna for little evident return, had latterly lent their backing to the cause.

Jharkhand generates some three quarters of Bihar state revenues yet receives only a quarter of spending on local services. And those are the official figures: many in the private sector say that Patna's financial vortex has in recent years left the south only about a tenth of state outlays.

Although the agreement to set up the council will not immediately free Jharkhand from Patna, it is widely seen as a precursor either to full statehood or to incorporation as a union territory responsible directly to Delhi.

In the meantime, Bihar will be able to nominate only 10 per cent of the membership of an otherwise elected council which will enjoy administrative control over 40 government departments including agriculture, education and health, raise its own local taxes, and receive other revenues from the centre without diversion through Patna.

The state government maintains that the accord merely formalises the existing treatment of Jharkhand's 40m people and will not impact on its budget. "Whatever we were getting, we will be getting," says a Bihar official.

Local economists doubt that. "The condition of Bihar will be very much worse," says Mr Shaibal Gupta of the Asian Development Research Institute, a Patna-based consultancy, who believes the state is "slowly being written off from the central scheme of things".

It is less than clear why Mr Laloo Prasad Yadav, Bihar chief minister, should have signed up to a deal which goes substantially beyond an appointed development council for the region which he had previously accepted. The central authorities are thought to have warned him that funds could be cut off unless he acquiesced.

But the breakthrough comes ahead of state elections due in Bihar early next year, one of a batch of such polls in coming months which India's ruling Congress party is treating as a key test of public support. Mr Yadav's minority Janata Dal administration ousted Congress in Bihar last time round in March 1990, and will be looking to consolidate its hold by lessening its unpopularity in the south.

It and Congress will both seek to present themselves in Jharkhand as the author of the agreement.

Mr Yadav came to power on a social justice platform promising to promote the interests of the lower castes, of which he is a member, and minorities such as the Moslems. To the extent that this has been achieved, it has largely involved the creation of public sector jobs reserved for the so-called backward and scheduled castes. The state payroll has risen by tens of thousands since he assumed office.

Homeless Biharis: more than 40 per cent of the people live below the poverty line Picture: Rakesh Sahai

While his concerns have been to the exclusion of any focus on investment-led development, Mr Yadav cannot be blamed for all Bihar's ills. At the beginning of the 1980s state output was on a par with that of neighbouring West Bengal, but slipped back under a period of ineffectual Congress rule while the state based around Calcutta began to prosper under an increasingly investor-friendly Marxist administration.

Business can be done in Bihar, with a fight. After a court case, a batch of new taxes on industry were overturned, though investment in several sectors such as refining of edible oils has moved across state borders because of better fiscal regimes elsewhere. Mr Shilendra Sinha, joint managing director of Kalyanpur Cements, an associate of the Swiss Holderbank group, says: "It is difficult, but there is less competition."

Kalyanpur this year built a cement plant in Bihar to replace an older facility. It could do so because it is better positioned than most on the state power grid, where interruptions in supply are legion. Businessmen regard the Bihar State Electricity Board as among the least efficient in India.

The largest power users will benefit from a central government relaxation in private generation. Tata Iron and Steel Company (Tisco), part of the country's biggest industrial group, has just won permission to build a 250MW plant for use at its mill in Jamshedpur, south Bihar.

Mr Kishore Singh, Tisco's Patna representative and president of the local Confederation of Indian Industry branch, says there is "no doubt about the potential" of Bihar, with its mineral wealth in the south and fertile soil along the Ganges to the north.

But agriculture remains hampered by feudal landlords. Reinforced by the caste system and the law of the gun which prevails in a number of areas, they dictate what their tenant will grow and how he votes.

Land reform has not ranked among the achievements of chief minister Yadav, who comes from a caste of cowherds. While his record in the towns seems no better, Congress before him could also claim little in either urban or rural progress.

Children in a Bombay slum: the sheer rate of population increase cancels out clean-up efforts

Environmentalists face a Herculean task, writes **Jimmy Burns**

The squalor of centuries

Ten years after the Union Carbide disaster at Bhopal, Indian environmentalists hope that the present plague will provide fresh impetus for making India a cleaner as well as safer place to live in. But the sheer population pressure looks like making such a task a formidable one.

It is summed up in the scene on the banks of the Ganges near the north Indian town of Kampur, where religious devotees sit praying to the holy waters, offering garlands of flowers and occasionally soaking themselves as they have done for centuries.

Nearby, untreated chemical waste from local tanneries is being poured into the river, together with raw sewage. Vultures and stray dogs take turns to pick among the garbage that rises in a steep gradient from the shore. Occasionally, among the debris, a half burnt body is washed up.

For centuries, the Ganges has been venerated as a symbol of Indian civilisation and tradition as well as sustenance. The river's basin is home to 37 per cent of the country's population and extensively cultivated. But it has also become an example of the difficulties India faces in developing an effective environmental policy that can be justified on cultural, social and economic grounds.

In 1986, during the premiership of the late Rajiv Gandhi, the Ganges became the focus of a much-trumpeted national clean-up campaign.

"Ganga [Hindi for Ganges] is a symbol of our spirituality, our tradition, our tolerance and and our synthesis. But it is the most polluted river with sewage and pollution from cities and industries thrown into it. From now we shall put a stop to all this," declared Mr Gandhi.

Eight years on, the nine-year Ganga Action Plan has almost lost its way. Under the scheme some new sewage and chemical waste treatment plants have been constructed along the Ganges, improving some local pollution levels. But the scheme in areas such as Kampur has fallen foul of a mixture of under-funding bureaucratic inertia, industrial malpractice and continuing large-scale illiteracy of sectors of the population which, while immersed in their ritualistic religious practices, remain ignorant of the environmental hazards threatening them.

Mr Kamal Nath, India's environment minister, says: "The Ganga Plan in Kampur has failed."

In a candid interview with the FT, the minister admitted that in implementing the Ganga scheme, the government had found itself having to tread carefully so as not to upset local industrial interests and religious sensitivities. But just how typical to the rest of India is Kampur?

According to Mr Nath, India stands out among Third World countries in that it has consciously "integrated conservation into our development process". Today, as he did in a passionate speech to the UN conference on environment and development in June 1992 in Rio, Mr Nath lays great emphasis on India's panoply of legal and administrative instruments aimed at checking environmental degradation.

Beginning with the Wildlife Protection Action 1972 and extending to the more recent setting of an emission standard for vehicles, India's environmental legislation aims to protect everything from the most remote wildlife reserve in the Himalayas to the most threatened urban landscape, be it old Delhi or Calcutta.

Nath, a self-confessed "politician, not an environmentalist", has actively been courting non government organisations and other environmental groups and involving them in the programme of his ministry.

New legislation, together with a growing public awareness of environmental issues among the middle classes, is the most positive fall-out of the catastrophic gas leak at the Union Carbide pesticide plant in Bhopal, central India, in 1984 which left an estimated 3,000 killed and more than 50,000 seriously injured.

There are currently statutory requirements for all large and medium sized industries to install treatment plants for effluent and air pollution filters.

Mr Shekhar Singh, an environmentalist expert at the Indian Institute of Public Administration, a non government agency, says that the implementation of environmental law remains "very weak", and that the present government is less ideologically committed than its predecessors to environmental issues.

The IPA has monitored 22 officially designated wildlife protected areas around India which are nonetheless being threatened because of government backed investment decisions, mainly energy related.

Mr Singh also believes that sheer population pressure combined with the government commitment for greater economic liberalisation will further undermine events for controlling industrial pollution.

The view is shared by Mr Uday Shanker, a features editor of *Down To Earth*, a science and environmental fortnightly whose circulation has been boosted as a result of growing public awareness. "Today in India there is no single new investment that does not come under close environmental scrutiny. But a government that has embarked on a policy of rapid economic development is bound to compromise on the environment," Shankar says.

The evidence – not just in Kampur but elsewhere in India – is that environmental policy continues to be breached rather more than practised.

At the Shriram food and fertiliser industries chemical works on the outskirts of Delhi, the effluent is so clean that it is regularly passed through a fish tank.

But the city's river continues to suffer the smells and dirt of chemical bleach from smaller units and the widespread untreated sewage from large sectors of the population still lacking basic sanitation.

The popular tourist location of the Taj Mahal has been declared a green zone with local metal workshops closed under court order.

But as Mr Nath admits, the large scale closure of workshops – accounting for about one third of India's manufacturing output – is politically impossible because it would simply add to the thousands of Indians already destitute.

That, however, does not excuse many companies in India who, having installed pollution control equipment, deliberately leave them switched off to save costs knowing that during, the rare visits by government inspectors, the inspectors can be bought off.

Perhaps the most problematic area remains that of religion. When I asked an employee from a local tannery from Kampur why he was submerging himself in the black water spewed out by his factory, he replied: "Mother Ganga will protect me."

Farmers adapt their fields to the export market, says **Jimmy Burns**

Sweet fruits of sufficiency

In the shadow of the Himalayan foothills near the Punjab city of Chandigarh, Mr Malvinder Singh, a civil construction engineer turned agriculture entrepreneur, is putting his expertise in air-conditioned buildings to new uses.

With the help of Dutch know-how and measuring equipment, as well as an abundance of cheap and enthusiastic female labour (Punjabi women consider themselves less religiously constrained than women in other parts of India), Mr Malvinder has converted 26 acres of low yielding agricultural land into a mushroom processing enterprise.

The plant, built at the relatively low cost of Rs235m, started up in August and is expected to produce 30,000 kilos of button mushrooms a day within a year. Mr Singh's Dutch agrofoods company hopes to tap a potentially lucrative market both in Delhi and abroad.

Some 50km further south off the main road to Delhi, in the midst of tropical countryside near the town of Zirakpur, Mr Gurdial Singh (no relation), a retired government officer, has invested his savings in a smallholding. From his rows of Dutch bulbs, he is reaping a rich harvest in gladiolis, a high-value crop being exported to the Middle East and Europe.

Mushroom farming and horticulture are just two examples of the increasing diverse use to which Indian agricultural land is being put – a diversity that accounts for the agricultural sector becoming a target for both foreign and domestic investment and an aggressive government backed export drive.

The post-independence green revolution of the 1960s and 1970s emphasised land reform, mechanisation and the wide-scale use of fertilisers and pesticides to increase the yield of traditional crops. The aim was to achieve self-sufficiency, banishing the threat of famine forever.

Today in India a new green revolution is under way aimed at maximising the use of agricultural surpluses. The aim is to ensure that India's vast and growing population continues to feed itself while boosting foreign exchange earnings.

The Ministry of Agriculture boasts a phenomenal growth of food grains output as perhaps the most outstanding achievement of India's economic performance since independence.

A new green revolution is under way, aimed at maximising the use of agricultural surpluses

The production of food grains has gone up from 51 tons in 1950-51 to a record high of 182 tons in 1993-94, resulting in a marked increase in per capita availability.

Agrobusiness is at the cutting edge of the latest green revolution. Given that India is coming close to the limit of extensive cultivation, agrobusiness is providing a new means of increasing productivity and generating employment.

Compared with other sectors of Indian industry, employment generation in food processing industries is today the largest per unit of investment. Agrobusiness currently accounts for 52 per cent of total industrial investment, employs 19 per cent of industrial labour (1.5m) and contributes 13.5 per cent of total industrial output.

With 4.2m hectares of irrigated and fertile land in which cropping intensity is 18 per cent, the Punjab region has become strident in promoting agrobusiness industries. A government agency, the Punjab Agro Industrial Corporation, is actively pushing for enterprises which can produce processed foods from French fries and chips to tomato puree, ketchup and wines.

Mr Narinder Singh Barak, the corporation's director, believes traditional entrepreneurial skills combined with good climatic conditions have turned agrobusiness into the backbone of the local economy.

"Now is the time to shift from wheat production to high value agricultural production which can ensure higher returns for our farmers and earn us much needed foreign exchange. Agrobusiness has become our top priority," he says.

Nationwide, India's food processing industries have attracted more than Rs300bn of domestic and foreign investment in the last two years, more than any other sector except energy.

Government figures show that the installed capacity of the fruit and vegetables processing sector has risen 25 per cent in the past three years, while production has grown 100 per cent in the period. Exports of processed fruit and vegetables have increased from Rs17.2bn to Rs47.1bn in three years, a rise of about 70 per cent.

Mr Dhara Bir Sadharvall, a director of India's Agricultural and Processed Food Products Authority, is optimistic about the government's economic programme. "Liberalisation is proving very good in the agricultural sector. Everybody and anybody is now free to export anything he likes," he says.

Women and children working in the rice fields near Bangalore

He concedes, however, that exports potential is being held back by transport and storage problems. It is estimated that over 20 per cent of India's agricultural produce goes to waste because of a lack of adequate storage facilities, inadequate refrigeration, and poor roads.

Glossy handouts from the authority aim to convince the world that Indian products can compete in price and quality in Middle East export markets. However, the claim was undermined this month when officials predicted that their efforts would suffer a setback as a result of the plague scare.

India was forced to postpone its onion harvest in the western regions where the plague outbreak was first identified. Subsequently exporters were faced with a blanket suspension of all food trade with the Middle East, which accounts for 70 per cent of India agricultural exports.

There is little evidence that plague-infected produce has been exported, but a damaging climate of suspicion among potential customers has been created. Because food products destined for export were dumped on the domestic market, some farmers have suffered losses.

Of more concern to economists such as Mr Ridley Nelson, head of the World Bank's agricultural unit in Delhi, is that the government's liberalisation programme has not removed the plethora of regulations that still riddle the agricultural sector domestically.

The World Bank is listened to carefully by the Indian government which is anxious to obtain development aid funding. The bank is considering extending $100m of credits to help agricultural improvements in the Uttar Pradesh region.

The bank recently submitted to the government the result of an extensive research into the workings of various laws which hamper efforts at improving commerce and investment. These include the Essential Commodity Act which provides central and state government officials with wide-ranging powers to intervene in the production, supply and distribution of essential commodities.

Under the Act the powers of officials extend to the issuing of licences to producers and distributors, the fixing of prices, the regulation of inter-state trade, and the prohibition of financial transactions deemed detrimental to the public interest.

The Act was promulgated in 1955, at a time of wide-scale shortages in food grains and black marketing and rampant hoarding and profiteering. Mr Nelson believes that it has long outlived its relevance.

Another legacy from the past which Mr Nelson would like to see tackled is the Land Ceiling Act which is based on the principle that "he who works the land owns it" and so restricts farms ownership to smallholdings.

Given India's population pressures, a blanket removal of the ceiling and the restoration of larger estates would be potentially explosive. But Mr Nelson shares the view of some Indian entrepreneurs that the government should extend exemption categories to agroprocessing and horticulture.

Free market economists remain critical of the government's regime of subsidies on financial and environmental grounds. The World Bank holds that Indian farmers would be better served if resources were diverted from subsidies to much-needed infrastructure improvement as well as the introduction of modern techniques for less wasteful use of water supply.

As they have done for centuries, in 1994 India's farmers still hold their breath prior to the monsoon and thank the gods if rainfall is abundant.

Jump in sales of cigarettes at 3p a packet

Villagers switch to a better class of smoke

Jirat is a sleepy village some 50km from Calcutta. Siddique Ali, a farmer in his 20s, likes a cigarette at the end of his day's work in the fields. During the day, however, he smokes bidis, which contain lower grade tobacco.

He is one of many smokers all over India, the world's third largest tobacco producer, who have partly switched to cigarettes from bidis. According to ITC, which has 60 per cent of the Indian cigarette market, the number of "dual smokers" is growing fast and there are also many giving up bidis totally in favour of cigarettes.

Although nearly 125m Indian adult males smoke tobacco in one form or another, only about 30m are cigarette smokers. Besides bidi and cigarette smoking, tobacco smoking through a hookah is largely prevalent in India.

The immediate reason for the jump in cigarette sales in the semi-urban and rural areas is that a packet of 10 micro cigarettes costs a mere Rs1.50 (3p). This follows the reduction in the excise duty on cigarettes of less than 60mm length from Rs120 to Rs60 per 1,000 sticks in the current year's federal budget.

A bidi stick at 10 paise is still five paise cheaper than a cigarette. But industry officials think that villagers are turning increasingly cigarettes because they regard them as "more modern". And at Rs1.50 for a pack of 10, cigarettes are no longer too expensive.

By substantially lowering the duty on micro cigarettes, the federal government has signalled that it would like cigarettes to replace bidis. That is because the cheap micro cigarettes yield 12 times more revenue than bidis which attract a duty of only Rs5 per 1,000 sticks. Since bidis are mostly made in small, local workshops, the revenue collection is poor.

The cigarette manufacturers are obviously pleased to have found a market segment which is growing fast. "In the past six months, monthly production of micro cigarettes has risen from 100m to nearly 500m sticks. The general expectation is that production will rise to 1bn sticks a month within a year and a half," say industry officials.

The Indian cigarette market has shrunk from 85bn sticks a year to 80bn in the last five years. However, in the current year there will be some growth as the micro cigarettes are moving fast and that is almost entirely at the expense of bidis.

But the market for bidis in India is huge. Though there are few statistics, it is estimated that at least 12 times as many bidis are currently sold as cigarettes.

"This offers a great opportunity to promoting the sales of micro cigarettes. What we also find encouraging is that many first-time smokers in the rural and semi-urban centres are starting with micro cigarettes and not bidis," said ITC.

The four major brands in the micro segment are Hero, Vijai, Commando and Blue Bird, owned by ITC, VST, Godfrey Philips and Golden Tobacco, respectively. They have around 80 per cent share of the micro cigarette market.

Since the industry is mainly targeting the rural smokers who have a different profile from the urban smokers, the cigarette manufacturers are changing their marketing strategies.

All the manufacturers admit that the profit margin in micro cigarettes is very thin. "First, we have kept the price of the product low. Second, the cost of distributing cigarettes in the rural areas is quite high. Fortunately, the volume of sales is growing at an encouraging rate."

Though cigarettes use only 20 per cent of the tobacco consumed in the country, they account for nearly 90 per cent of the excise revenue generated by all tobacco products. In fact, after petroleum, cigarettes are the second largest contributor to the exchequer.

In the current year, cigarettes are expected to generate revenue of more than Rs30.5bn for the government, compared with Rs27.43bn in 1993-94. Except for the micro cigarettes, which are now attracting a much lower excise duty, the levy on all other cigarettes has been raised by 12 per cent in the 1994-95 budget.

However, in the earlier two budgets, the government spared cigarettes, which were already highly taxed, from any duty increase.

The annual average increase of 24 per cent in cigarette prices has also forced the smokers to move away from the higher priced to lower priced cigarettes.

The manufacturers argue that since they use better tobacco than that used in bidis, a higher procurement of the commodity by them would raise the income of the growers. The farmers would then have the incentive to produce better tobacco. If the government agrees, then perhaps the duty on regular cigarettes will be lowered in the next budget.

Very few Indian women smoke, unlike in China where about 6 per cent of the adult women smoke cigarettes. The market for the premium king size cigarettes in India is less than 1.5bn sticks a year. In this segment, moreover, the sale of illegally imported cigarettes is double that of the local brands such as India Kings and Classic.

Even though the top end of the market is small, R.J. Reynolds and Philip Morris are exploring the possibility of producing cigarettes in India. Godfrey Philips already produces Rothmans locally.

Kunal Bose

The rural masses show their consumer power, writes **Jimmy Burns**

Sleeping giant stirs

Kherala, in the state of Haryana, some 50km south of Delhi, fits the image of the age-old village whose traditional values Mahatma Gandhi sought to preserve. But take a closer look and you'll discover the modern age tentatively knocking on many a front door.

Set well back from the main highway to the capital, the bulk of Kherala's population of 4,000 live in squat huts made of crude cane and cattle dung. But most of *the huts have TVs, electrical kitchen* gadgets and an assortment of mass-marketed toiletries. Oxen plough the nearby fields, but tractors spray the fertilisers and transport the labourers, and piped water is gradually replacing the village well. Scooters and mopeds are also disturbing the rural idyll, rivalling the ox as a status symbol.

India's villages, where 80 per cent of the population live, retain much of their immemorial quality. But the agrarian reforms of the last two decades together with the migration to the cities of many villagers has brought about a significant rise in agrarian purchasing power and a change in consumer patterns. Cultural change is also being hastened by the spread of TV.

According to research undertaken in recent years by India's National Council for Applied Economic Research (NCAER), the importance of rural markets for manufacturerd consumer goods is increasing and will increase further as a result of the government's liberalisation programme.

Although most of India's lowest income families live in the villages, they are an important market for some specific consumer goods which are anything but traditional.

The most recent extensive survey carried out in 1992-93 show that 75 per cent of *bicycles and portable radios, and 60 per* cent of table fans, sewing machines, and wrist watches, sold in India were bought in rural areas. Rural markets also accounted for a 72 per cent share in national sales of washing cake.

The NCAER survey found that the rural share of other consumer sales has been rising in relation to sales in the cities. In a sample study over a four year period between 1989-93, the percentage of black and white TVs bought in rural India rose from 44 to 47 per cent; of colour TVs from *19 to 31 per cent; cassette recorders from* 42 to 49 per cent; video recorders from 5 to 8 per cent; toothpastes from 30 to 38 per cent; washing powders from 48 per cent to 52 per cent; and electric bulbs from 30 to 32 per cent.

But perhaps the most revealing statistic, since it suggests the amount of spare cash in farmers' pockets, is that while in 1960 the average rural household spent 61 per cent of its income on food, today it spends less than 70 per cent.

During the 1980s, companies and advertisers devised their strategies for rural markets on the assumption that consumer preferences in the average Indian village would be not much different from urban centres. In recent years a geater effort has been made to understand the particular cultural, social, and economic conditions that exist within the villages.

Pradeep Kashyap, a marketing consultant, who has organised workshops on rural markets for the Asian Centre for Organisation Research and Development (ACORD), says: "Having been trained in a westernised culture, we tend to approach even the rural market with certain urban mindsets. That doesn't always work. To effectively market a product, we have to get off our high horses and understand rural ways."

To illustrate the idiosyncracies of the rural mind, Indian advertisers like to recall the following anecdote regarding sales of hair dye in the villages of Gujarat.

Three quarters of the bicycles and portable radios sold in India were purchased by village dwellers

A few years ago it was discovered that sales of the dye had shot up to three bottles per consumer a month. It was subsequently discovered that far from being used for the villagers' hair, the dye had been used on the local cattle. It was felt that the shinier the cow's coat, the better the chance of getting a good price at the local market.

In Kherala, rural ways are exemplified by the family of Mr Lackhan Singh Sarapanach, a 45 year-old farmer who has served for several years as the elected head of the village body. His wife Subhe*bra recalls that when she first came to the* village as a teenage bride, women rarely ventured from their huts, and spent their time either grinding corn or washing clothes.

Today the mill stone lies abandoned in the Sarpanach larder, and a machine is used for the task. Subhebra cooks over an electric stove instead of firewood. She still washes the clothes by hand. But her clothes are no longer home spun, and she uses commercial washing powder.

Her daughter Neelan, 16, likes to buy *make up and ready-made clothes in the* town market. Her ambition is to buy a car. Jaisingh, her 23 year-old brother, wears jeans and gym shoes and likes to ride motor scooters. He plans to leave for Saudi Arabia as a construction worker in the hoping of earning enough money there to increase his family's limited supply of electrical gadgetry.

And yet the Sarapanach family are neither spendthrift nor uncritical of modern life. The family tailors its bigger purchases according to what it can afford and is without a refigerator or a gas stove.

Subbhebra is not convinced that the shampoo she now uses is superior to the mixture of mud and tree extract with which she washed her hair as a young girl. "I notice that people's hair in the village is not as thick and strong as it used to be," she says. The shampoo is, however, affordable and saves her time.

There are no Body Shops in Kherala. The local store reflects the modesty of disposable incomes and the complex nature of consumer aspirations. There are unmarked bags of rice and bottles of vegetable oil, indicating that on staple foods at least the villager remains product loyal rather than brand conscious.

On the shelves there are several different brands of washing soap, toothpaste and combs prominently displayed while the only available brand of bras are kept modestly in boxes. There are also a variety of biscuits and two different brands of light bulbs. But the most popular confec*tionery remains a local sweet made of* sugar cane, herbs, and butter milk.

The Sarapanachs do much of their shopping in the town market, where there is a wider range of products. However the head of the family insists: "I don't buy something simply because someone tells me I should buy it. It needs to be worth it price wise and accessible. And what matters to me is not the packaging but whether it really makes my life easier."

Market research done on other villages in India suggests that consumption patterns of rural consumers generally remain distinct from those of urban consumers. While many villagers are earning their wages in the towns, caste and religion continue to play a dominant role in their villages, insuring a high degree of social conformity and respect for tradition. Sta*tus symbols remain important, as do* strong personal relationships.

These factors are likely to put an increasing onus on companies developing marketing strategies which are sensitive to the peculiar needs of rural communities. Already advertisers have had to accept that sexual innuendo and images of boys and girls frolicking over a can of fruit juice jars with village tradition. And companies find that using long-standing dealer networks (often using extended families and internal village hierarchies) can prove *more useful than sending in outsiders.*

This marketing will be watched closely by government officials. While anxious to promote economic development in rural communities, officials realise the need to protect more positive aspects of traditional life such as artisan crafts.

Several non-government agencies are promoting traditional weaving and wood working in some villages with an eye on exports. But the days when villagers themselves buy what they make may have gone forever.

Gandhi's social vision remains a dream, says **Gordon Cramb**

Some things don't change

In mid-October, as the initial panic over the plague outbreak receded, the *Sunday Times of India* ran a signed commentary, calling on local leaders to "convert themselves into unpaid sweepers".

The article was an extract from the collected works of the Mahatma Gandhi, India's founder.

Top city officials in Delhi were spending part of their weekend being photographed following Gandhi's precept. It was a token gesture, and enduring answers to India's public health problems remain elusive.

After significant progress to improve the social framework since independence in 1947, concerns are growing that sanitation, nutrition and literacy *for its 900m people are slipping* down the government's list of priorities even as liberalisation offers the prospect of rapid economic growth.

Health care provision from all public sources is estimated to account for only 1.5 per cent of gross domestic product, half its peak level. Some states spend less than a dollar per head a year, and three quarters of rural clinics are privately run.

Achievements on some fronts are diluted by a failure to provide matching facilities in others. Some 78 per cent of rural dwellers have access to safe water (although this may *require a 2km return trip to* collect) but, according to Unicef, only 11 per cent have access to a latrine.

While the plague toll which alarmed the world reached only 55, someone in India dies every minute of tuberculosis – the country has 40 per cent of the world's cases – and up to 10,000 under-fives perish each day, largely of pneumonia or of dehydration brought on by simple diarrhoea.

This is in spite of the halving of infant mortality rates since independence. A mass immunisation programme launched in the 1980s achieved 80 per cent coverage. A few states such as Kerala and Tamil Nadu in the south have demographic profiles approaching those of developed countries, and aid agencies working in India argue that this shows large-scale programmes can have a durable effect.

But as well as old problems such as the plague, new ones surface. Some 1.6m Indians are estimated to be HIV positive, and research presented at the international conference on Aids in Yokohama, Japan this August showed that from an initial detection in 1986 the prevalence of the virus had spread across the country and beyond high-risk groups such as prostitutes and their clients. With heterosexual sex the main means of transmission, about half those infected are women.

People of Varanasi: India has 40 per cent of the world's TB cases

Incidence of the virus is "strongly linked with other problems resulting from overpopulation, poverty, disease, illiteracy and gender bias," says Dr Sengupta Sushma of the All India Women's Conference.

Many Aids-associated illnesses go unidentified, let alone treated, and Indian pharmaceutical companies are just starting to develop diagnostic kits suitable for the country. The Bombay-based Lupin Laboratories expects to have one in production by the end of the year which will not be affected by heat, a common problem when such materials have to be distributed by road to rural centres.

According to health workers, Aids education in schools is bedevilled by social taboos, while getting this and other messages across to adults is made harder by the fact that 48 per cent of the population remains illiterate.

India's target of universal literacy by 2000 is looking increasingly unattainable. Unicef's Ms Gillian Wilcox describes 1995 as the "make-or-break year" where those starting school need to be retained for the five years of primary education which will provide their reading and writing skills. Dropout rates can commonly reach 40 or 50 per cent in the first year.

Government curricula are being re-examined in an attempt to make what is being taught seem less alien particularly to rural children, and experimental projects in various parts of the country show what could be achieved more widely if the public education system is freed from some of its rigidities.

At Turki, just north of the Ganges in poverty-stricken rural Bihar, 560 children attend what has become known as India's first "school for shepherds." Its 25 acres provides grazing for their families' livestock while, in addition to Hindi and arithmetic, they learn animal husbandry, basket weaving and sandal making.

Mr Sita Ram Rai, the head teacher, says: "Our basic aim is to make them literate, then give them training." Unusually, they get a midday meal and they get paid to attend – one rupee a day for the lowest-caste children, less for those who are more privileged.

In the central state of Madhya Pradesh a local non-governmental organisation called Eklavya has been granted rare permission to use workbooks of its own devising in government schools to foster activity-based learning. The European Union is backing a Rs7bn programme to improve primary education in deprived districts there.

First-year classes can have up to 80 students, and although facilities are poor, donors are reluctant to put much money into bricks and mortar. In Turki, *some learn their lessons* under a banyan tree.

Apart from a lack of resources, two main problems hamper education in India as nowhere else: child labour (embracing perhaps 40m who should be in school) and the caste system.

The two are related. When a lower-caste family withdraws a child from school in order to work alongside its parents in the fields, it may be for economic reasons. But the parents may also take the decision conscious that their offspring has been made to sit at the back, or outside, or given menial tasks like *lavatory cleaning seen as* befitting its status.

The belief that such work should be done only by those castes, who are then reviled for doing it, goes to the root of India's health and literacy difficulties, as Gandhi recognised.

"Primary education of its children must be undoubtedly an important item in the work of a municipality. But I have not a shadow of doubt that sanitation occupies the foremost place in its programme.... I hold it to be impossible to give a healthy education to unhealthy children," he wrote, arguing that "Untouchability has a great deal to answer for the insanitation of our streets and our latrines."

In half a century, not much has changed.

Foreign groups join drive to electrification, says **Gordon Cramb**

Battle against black-outs

For Mr R Vasudevan, power secretary in the Indian government, there are "no push-button solutions" to the country's electricity shortages. Achieving the needed output, he says, will require "a long gestation period".

His vision is helping bring private operators, including foreign companies, into an industry which until now has often been politically manipulated by state and central governments.

A parliamentary and legal challenge held up agreement on the first flagship project, a $2bn plant being built by Enron of the US to supply Bombay. At issue was central government's right to grant guarantees that the State Electricity Board (SEB) in Maharashtra, of which Bombay is the capital, would pay for the power it received. Without these, Enron said it could not raise financing for the facility.

The way the power ministry has conducted negotiations with prospective entrants has won praise even from beyond their ranks.

The task ahead, though, is enormous. Growth in installed capacity for power generation has averaged 6 per cent annually since independence and currently stands at some 77,000MW. Mr Vasudevan told an energy summit convened in Madras in August by the Confederation of Indian Industry that "the capacity addition as planned is short of the need-based requirements and, what is more disturbing, even the achievement of this target is dogged by serious resource constraints".

In short, public sector suppliers are at best treading water – capacity being added is enough only to keep pace with economic growth rather than redress structural shortages, and many SEBs do not have the capital to meet expansion commitments envisaged under the current five-year plan which runs to March 1997.

Overall power shortages are around 10 per cent, with unmet demand at peak times nearly double that. Private sector involvement, largely foreign, is seen as the only escape from "load shedding", the intermittent blackouts experienced daily by virtually all businesses and households. Only key government installations and export industries in some states are protected.

According to Mr Vasudevan, a programme to bring reliable electricity to all India would mean additional capacity of 142,000MW by 2007, nearly trebling the available total. He agrees with private sector estimates that making a start on this will require at least $8bn a year worth of plants over the next five years.

The largest project so far agreed is a $12.7bn plan by an offshoot of Mr Gordon Wu's Hopewell Holdings of Hong Kong to provide an eventual 10,560MW of capacity through two coal-fired plants in a deal with Powergrid, a central government agency. The first of these 16 units is to come on stream by early 1999, with full operation scheduled for 2003.

Powergrid is a minority supplier to SEBs, and India does not yet have a national grid, though one is intended to evolve as part of the restructuring of the sector.

In the short term, three main ways in which the centre is seeking to improve power availability by getting the most out of existing capacity are: encouraging demand-side management, limiting transmission and distribution losses, and increasing power station efficiency.

But each of these runs up against entrenched attitudes at the SEBs, which currently provide three quarters of the country's power, and at the offices of their political masters in state capitals.

First, the tariff structure does not sufficiently steer larger users into making optimal use of off-peak periods, and many smaller commercial customers, notably farmers, are supplied at a loss.

Second, some 23 per cent of generated electricity disappears before it reaches the customer, commonly through illegal link-ups, and few governments are prepared to arouse the ire of slum dwellers by severing their pirate lines.

Third, headway has been made in improving use of installed capacity (official figures show that average plant load factor, a measure of this, rose from 57 per cent to 61 per cent last year) but such an improvement may not be sustainable without spending on modernisation by the cash-strapped SEBs.

That would have to form part of a programme for the longer run, one which also offers opportunities to foreign suppliers. States are turning towards schemes whereby they lease an uneconomic facility to a private operator which upgrades it and, where required, eventually returns it to public hands. Mr S Sangameswaran of Asea Brown Boveri, the Swiss-Swedish engineering combine, estimates that the market for modernisation could itself deliver 30,000MW in extra capacity.

He enumerates several areas of concern for developers entering the Indian market. Prime among these are the tardiness in establishing a transparent bidding and evaluation procedure for projects, together with a complex and slow decision-making process. Under the Indian constitution, electricity is the dual responsibility of the centre and the states. The two levels of government are seldom of one mind on priorities or cost, and SEBs are not conducting open tenders.

Furthermore, the sheer number of projects now being contemplated – 86 at latest count – may lead to a dilution of efforts. Mr Vasudevan admits his department has had problems even processing the proposals.

Duties on imported equipment stand at 20 per cent, although these have been reduced sharply from a previous 85 per cent. ABB is in talks with Delhi to take over a government boilermaking factory and is planning to build turbine generators at a greenfield site, aiming to produce its first Indian-made machinery by 1997-98.

A main plank in the government's efforts to improve supply is a greater reliance on hydroelectric generation. Officials estimate that only a fifth of a potential 84,000MW capacity is being exploited, and wish to increase the contribution of hydropower to some 40 per cent of the total from a current 23 per cent.

This will depend to some extent on the fate of the country's flagship Narmada Dam project in central India, which has been reviled by aid agencies because it would entail uprooting of thousands of rural communities.

Although the World Bank has withdrawn support, Narmada remains on the drawing board.

On a different level, the World Bank in July cancelled $750m in power loans to a small number of SEBs because of their poor financial performance. There were little or no knock-on effects on other projects, and in the past year half a dozen states have agreed to reform their power regimes with World Bank help.

But Mr Heinz Vergin, head of the Bank's India department, was quoted as describing some of the local remedies for the SEBs' ills as "Band-Aids".

No wonder central guarantees were sought, and are being granted, for the first seven large, fast-track projects in which foreign companies are involved.

While foreign operators fret about the remaining risks, such as construction delays and cost overruns, nationalist politicians maintain that too much has been given away.

ANNUAL ELECTRICITY OUTPUT 1950-93 (bn kwh)

Year	Hydro	Thermal	Nuclear	Non-utility	Total
1950-51	2.5	2.6	-	1.5	6.6
1960-61	7.8	9.1	-	3.2	20.1
1970-71	25.2	28.2	2.4	5.4	61.2
1980-81	46.5	61.3	3.0	8.4	119.3
1990-91	71.7	186.5	6.1	24.1	288.7
1991-92	72.5	208.6	5.5	27.5	314.2
1992-93	69.8	224.4	6.7	30.0	330.9

Source: Asea Brown Boveri

Software skills attract world-wide interest, writes **Paul Taylor**

Brains at bargain wages

Over the past decade India has built up a solid reputation for software programming and semiconductor design.

According to the National Association of Computer Software and Services (Nasscom), the Indian software sector grew at a compound rate of almost 30 per cent between 1987 and 1992.

Last year, the industry generated $600m of revenues, 50 per cent more than the previous year, of which $330m represented exports, mostly to the US and Europe. Nasscom's 273 members, who include the Indian subsidiaries of companies such as Microsoft as well as indigenous companies, account for about 97 per cent of industry revenues. "This year's revenues will reach about $1bn and we estimate 50 per cent growth for the next 50 years," says Mr Dewang Mehta, the executive director.

Several factors explain the success of the Indian software industry. Among these India has a large pool of relatively low wage skilled people who speak English and have been taught mathematics and science. The salary for a qualified Indian graduate, although rising rapidly, is still only about a tenth of that in the US. As a result, when labour shortages began to appear in the mid 1980s many western high tech companies set up software and semiconductor chip design operations in India, particularly around Bombay, Bangalore and Delhi.

Others went "body shopping" – contracting with Indian start-ups that could supply cut-price programmers.

Among the industry pioneers TCS (Tata Consultancy Services) was started 26 years ago and won its first overseas contract in 1974. Today TCS employs 4,000 professionals (average age 26¼) of whom 1,700 to 1,800 are working for foreign clients including 800 abroad.

"We think of ourselves as software engineers," says Mr Faquir Kohli, deputy chairman of TCS whose customers have included many foreign giants including insurance companies Life and Prudential and US banking group J.P. Morgan.

Mr Saurabh Srivastava, managing director of International Informantics Solutions (IIS), another Indian software consultancy, cites several reasons for using a company like his. One is cost – using an Indian subcontractor can cut costs by about 25 per cent for the same quality or better work.

According to Mr Srivastava, the Indian software industry is entering a new phase. Having developed programming expertise and confidence, IIS and other companies are beginning to invest in the research and development of their own products. "There are a lot of companies doing R&D today," he says.

Mr R Ramachandra, science editor of the Economic Times newspaper, estimates that, despite tax an other incentives for industry, around 75 per cent of Indian R&D expenditure is undertaken by the government.

Many Indian companies are now confident enough to research and develop their own products

In part this has reflected India's strategic requirements. With access to western technology restricted, India has developed indigenous expertise in key areas including defence, space and nuclear power. These programmes have had mixed success. For example, the space programme, conducted under the auspices of the Indian Space Research Organisation, has suffered a number of technical setbacks.

Meanwhile, the country's nuclear industry was branded a "dangerous failure" by western scientists earlier this year during an investigation by America's CBS network and the country has been without an indigenous semiconductor fabrication capacity since the semiconductor plant at Chandigar burned down in 1989.

In other areas, India's attempts to protect and encourage domestic high technology companies have come unstuck. In aerospace and defence, the state-controlled companies which dominate industry have failed to make any inroads into the commercial sector. In areas such as pharmaceuticals, however, there have been successes.

The Indian pharmaceutical industry is well established and the government's decision earlier this year to sign the Gatt agreement on intellectual property rights is expected to stimulate further research and development.

In addition, several national research laboratories such as the National Chemical laboratory in Pune have developed a high level of expertise in process technology – for the petrochemical industry, for example – and are acknowledged to be world-class institutions.

Historically, private sector R&D spending in India has been fairly limited. Small private sector businesses have relied on the state laboratories for technology such as materials substitution and testing, while larger scale manufacturers have been protected by trade barriers and often lacked the finance and the confidence in future government industrial policy to undertake R&D.

Overall expenditure on research and development in India is reckoned to be running at around 0.8 or 0.9 per cent of GDP – down from about 1 per cent during the 1980s. The decline reflects the impact of the current administration's economic liberalisation programme which includes restricting state spending.

As a result many state-run research laboratories which have so far failed to win foreign or private sector contracts are close to collapse. The government hopes that eventually its more open economic, financial and trade policy will encourage industry to invest more in R&D and establish more technology transfer joint ventures with foreign multinationals.

Paul Taylor hears how Bombay and Maharashtra plan for the future

Cutting edge of capitalism

The large billboards around Bombay invite India's stock market punters to purchase shares in the some of the 100 companies which come to market each month while street stalls act as broker's agents, distributing share application forms to passers-by.

"We have 25m investors in India," says Mr Bhagirat Merchant, president of the Bombay Stock Exchange. "That makes India second only to the US in terms of number of private investors."

Bombay, India's premier financial centre, economic powerhouse and the capital of the state of Maharashtra, is at the cutting edge of capitalism in the sub-continent. Now, after decades of stifling state-planning, business is booming.

The city's plush hotels are full of foreign businessmen. But such conspicuous consumption serves to further highlight the gap between the growing number of affluent white-collar workers and the poverty of the less fortunate.

On the seafront outside the deluxe Taj Mahal hotel, Bombay's street beggars, many of them children dressed in rags or women holding babies, plead with the tourists; "Money for food, money for food, sir."

In Bombay they are more interested in making money than politics

Since independence Bombay's population has risen from 2m to around 13m. Each day an estimated 500 families, most from outside the state, arrive in the city in search of a better life.

Most end up sleeping on the pavement or in Bombay's sprawling shanty-town slums which are among the worst in Asia. Even then many try to eke out a living, sorting through piles of rubbish or mounds of plastic bottles. Everywhere there is activity.

Bombay has a reputation for being a cosmopolitan business centre, more interested in making money than in politics. But inter-religious riots have highlighted the murkier links between politics and crime.

Two months ago Mr Ramdas Nayak, local president of the right-wing Hindu Bharatiya Janata party and a strong critic of political corruption, was killed by gunmen using automatic rifles.

Since then Mr Sharad Pawar, the chief minister of Maharashtra, has faced mounting criticism about the rise of violent crime in the city and growing evidence of ties between politicians and underworld gangsters.

Bombay plays a pivotal role in the the economies of both the state and the nation. It is India's busiest port handling nearly 25 per cent of total foreign trade; it has the nation's largest stock exchange which handles around 70 per cent of all capital market transactions and is headquarters for most large commercial banks and the Reserve Bank of India.

It is also a large manufacturing centre for everything from textiles to pharmaceuticals and it is India's "Hollywood", turning out about half the 500 to 600 full length feature films made in the country each year.

Maharashtra is one of the largest states in India with a population of 79m and accounts for more than a quarter of the country's industrial output.

More than half India's top 100 companies are based in Maharashtra. Multinationals such as Lever, Roche, Sandoz, Bayer, Asea Brown Boveri, Burroughs, Wellcome, Colgate, Procter & Gamble, Coca Cola and Kellog have plants in Maharashtra, making it India's most industrialised state.

Outside Bombay several other large industrial centres have emerged including Pune, a city of 2.5m people perched high up on the Deccan plateau.

Maharashtra chief minister Sharad Pawar Picture: Rakesh Sahai

To investigate how Maharashtra could maintain its industrial and economic leadership in the face of increasing competition the state Investment Corporation of Maharashtra (Sicom) commissioned a study by McKinsey, the management consultancy.

McKinsey's report, published in April last year, identified Maharashtra's key strengths as revolving around "a skilled, low-cost labour pool, availability of select minerals (coal, oil and gas and bauxite) and agricultural products, adequate power supplies, Bombay's premier position (in the domestic and global context) and established resource clusters in the textiles, auto, engineering, food and petrochemicals industries".

However, the report also identified a number of "major barriers to continued growth and leadership" including quality of infrastructure.

Since then the state has adopted a new industrial policy which Mr Pawar says is aimed at freeing the industrialisation process from bottlenecks and encouraging non-polluting high tech industries.

The chief minister, a powerful advocate for Marharashtra, runs the state as if he were the chief executive of a large company and has a single vision of how it should develop.

"I want to make Bombay another Hong Kong," he says. He wants a review of urban land policy and "the modernisation" of India's rent control acts. In addition he is advocating the development of a series of satellite towns 30 to 40 miles outside Bombay.

Jimmy Burns on the woes of the world's second biggest rail network

So many people to move

India's railway system, the world's second largest, straddles the country like a colossus. *Without it, social* and economic life would collapse.

The railways represent India's main form of transport, with annual passenger levels estimated at 3.7bn, and freight traffic, including essential commodities such as mineral ore, food grain, and fertilisers, totalling 362m tonnes in the year 1993-94. It is one of the world's largest single *employers, with 1.6m on its staff.*

The minister for railways, C K Jaffer Sharief, says that his main objective is "to provide an effective, dynamic, cost-effective transport system which can serve as an engine for economic growth".

But insuring that the railway system meets the demands of a growing population and an expanding economy is proving a formidable task for the state-owned Railways Board, as it looks for fresh ways of financing its modernisation programme after having its budgetary support savagely cut by the central government.

A stark illustration of the kind of pressures facing India's rail chiefs is provided by Delhi's main railway station. Mr Parajeet Kumar, the station master, contemplates the whirlpool of humanity which daily builds up on his platforms, and the gradual encroachment by the slum dwellers who live along the railway lines. At the height of this autumn's plague scare, passengers with their faces covered with handkerchiefs stood watching black rats scurrying over the lines.

"We try and put on more trains every day but we still don't seem to have enough to deal with the population. We need more stations, more lines, and greater capacity in our repair yards," says Mr Kumar.

The backbone of the nationwide modernisation plan is an ambitious programme of conversion of 6,000 kilometres of track from metre gauge to broad gauge by 1997, to help meet an expected 25 per cent increase in freight traffic over the next three years.

The programme represents the biggest single conversion programme carried out anywhere in the world during this century, and the biggest single project undertaken by Indian Railways since the first railway service got under way in 1857.

India's vast network of metre and narrow gauge lines has been carrying less freight traffic every year, causing heavy losses. As an alternative to providing funds for the continuing maintenance of the network, the current policy is to convert the more important metre gauge routes to broad gauge so as to introduce alternative routes for freight traffic, and *obviating the need for the construction of* new broad gauge lines.

The conversion is aimed at accelerating the turn-around time of wagons, minimising transhipment bottlenecks, and by so doing improving the overall operating ratio of the system. It is aimed at overcoming the sense of economic isolation felt by some parts of India which have been dependant on meter gauge.

The gauge conversion will link mineral rich areas of India with production and consumption centres in other parts of the country. For example, the Jodhpur-Jaisalmer area of Rajasthan with rich high quality limestone reserves will be linked by broad gauge route with other parts of India.

As the minister Jaffer Sharief has put it: "The problem with the railways is that their line capacity is saturated...With gauge conversion, several alternative routes will become available leading to increase in line capacity. This will result in long-haul road traffic reverting to rail."

Another key plank of the modernisation programme is the introduction of higher capacity trains and higher horsepower locomotives capable of handling more tonnage and more passengers in less time.

A controversial and long running debate over whether or not India should import high-tech locomotives has finally been resolved. Under a contract worth $190m, *Asea Brown Boveri, the European engi*neering combine, will supply next year 33 new generation micro-chip-controlled alternating-current engines. The contract involves transfer of technology to facilitate the development and construction of a further 30 similar locomotives in India, increasing to a production target of 150 by the year 2000.

Waiting patiently: would-be passengers at a New Delhi railway station

The controversy surrounding the award of the contract showed that despite the government's official commitment to economic liberalisation, doing business in India can still be fraught with problems.

ABB, which has a large Indian affiliate employing 4,000, has been supplying Indian railways since the 1960s. But members of a government advisory committee lobbied actively against the award of the *contract ostensibly on cost grounds* but with the main intention of promoting India's own engineering industry.

In its defence, ABB claims that the state-of-the art technology it is bringing, and which it will hand over to the Indians, has an energy conservation potential of 35 per cent, lower maintenance cost of up to 40 per cent, and a higher turnaround that will increase the availability of locomotives by 50 per cent.

In addition it points out that the introduction of the locomotives will bring about a matching modernisation of signalling and telecommunications in and and around India's railway stations. Only 10 per cent of India's railway stations are currently semiautomated.

Mr Viren Srivastava, a senior executive with ABB, says: "In India what is still important is to ensure that trains get to their destinations. We hope to ensure that. It's better to learn to walk before you can run." Walking rather than running also means that the Indian government is unlikely to embark on an ambitious programme of privatisation. Some free market economists believe Indian Railways is hugely overstaffed. One estimate is that the railways could be run more effectively with a third of the current staff.

However, according to senior railway officials such an estimate ignores the huge political and social costs that the government would encounter were it to embark on a programme of mass lay offs.

In the current five year plan, which began in the year 1992-93, budgetary support of Indian Railways has been cut from 75 per cent of capital requirements to 19 per cent.

Over the last two years, both passenger and freight traffic revenue have been hit as a result of railway accidents and communal disturbances.

To offset losses the Railway Board is planning to lease or sell some of its properties, and tighten up on passenger and freight receipts. Meanwhile, it is extending an olive branch to the private sector while still holding on to its overall monopoly. Thus the operation of some tourist trains – the so-called palaces-on-wheels – are being put in private hands, while catering is being increasingly entrusted to private contractors. The private sector is also being given greater opportunity to advertise on Indian trains.

Such cosmetic changes may boost revenue, but may fall short of making the Indian Railways the self reliant and efficient transport agency its officials promise. Within the context of India, it is nevertheless near miraculous that railways function at all.

■ SATELLITE TELEVISION

World media zoom in on 150m households

As more than a dozen satellites swarm over Asian skies and India's television audience expands towards 150m households by the turn of the century, international entertainment and media companies are mounting a space-age invasion of the country.

These are all making plans to piggy-back Apstar II, a Chinese satellite that will centre its beam over India, and some 14 new satellites to be operational over Asia by 1996.

Together, the networks will challenge the near-monopoly that Star TV, the pan-Asian satellite network now owned by media magnate Rupert Murdoch, has enjoyed since it started beaming five channels to India in 1991.

Star's supremacy in the region will also be challenged from an unlikely quarter. Doordarshan, India's state-owned TV network, has an advantage over Star and other satellite networks because its main channels are accessible through simple antennae and a base of 30m TV sets, giving it a formidable reach of over 335m viewers.

Doordarshan, managed by socialist-minded bureaucrats, accustomed to taking government orders, was certain that Star would never be able to match its reach, especially in India's vast rural *hinterland.*

Reacting belatedly, the staid network has launched an ambitious modernisation and expansion programme to increase its current six channels to 21 in the next few years, and to bolster its flagging image.

Competition has already done wonders for Doordarshan's programming. When Star failed to renew its contract with MTV, Doordarshan moved in, to review two and a half hours of programming from the music video channel on its metro channel. The launch of a new "high-brow" channel with chat shows, and live news programmes from the biggest names in Indian journalism this October signals a welcome change.

The decision to schedule MTV, which has become a metaphor for all that is "Western" (and thus "undesirable"), is an indication of how desperately it is trying to woo back the viewers it lost to Star.

Star TV kicked off a cultural revolution of sorts when it started transmitting to India three years ago. Its five channels were a potpourri of entertainment, sports, news, and sometimes Chinese language programmes. Much of the programming made no sense to a majority of Indian viewers. But the network seriously undermined the Indian government's stranglehold over telecasting, especially news.

Embarking at around the same time on its economic liberalisation programme, *the Indian government was, on the one* hand, encouraging the "foreign invasion" and the return of all things Western, and on the other battling clumsily to ward off what was derisively termed the "Coca Cola and MTV culture".

India's new middle classes, an estimated 300m, were, for the first time, given a choice to view what they wanted – even if it was MTV – as opposed to what the government decided was best for them.

The Indian government was particularly concerned about losing its grip on the news, which it had previously carefully monitored and often short-sightedly censored. It began to see that Doordarshan would no longer be the powerful political propaganda tool it was when its monopoly was unchallenged.

The state network's news bulletins were quickly upstaged by the BBC's slick world service, *with news on the hour offered* through the Star network. The government's helplessness in the face of the alien invasion was highlighted when cable operators started offering PTV, the Pakistan television channel.

Cable operators are hardly an anti-national lot. Many of them heeded the government's pleas to stop PTV broadcasts, but others decided to defy the diktat and pander to the vast audiences for Pakistani soap operas.

The operators, mostly small businessmen and shopkeepers who diversified to take advantage of the new business brought in by Star, hook several households in a locality on to a satellite dish, for a small monthly fee ($5-$10). The operators currently offer up to 20 channels, but are gearing up to acquire more technical and sophisticated equipment to *handle the 100-odd channels* likely to be available by 1996.

In September, the government promulgated an ordinance in a belated attempt to regulate cable television. Under the Cable TV Networks (Regulation) Ordinance, cable operators must be Indian citizens, and foreign investors would have to limit their equity to 49 per cent. The ordinance makes it compulsory for operators to offer at least two Doordarshan channels, and empowers the competent authority to ban programmes "in the public interest".

The new rules, however, do not apply to the programmes of foreign satellite channels which are received without using specialised decoders. It is unlikely that networks like Star will do anything to antagonise the governments of the countries they operate in, or the cultural or religious sensibilities of the people in the region, for that matter. Which is why Turner Broadcasting Corporation will exclude Porky Pig from its daily cartoon channel to be aired in Indonesia, which is predominantly Moslem.

Responding to the increasing need for locally customised programming, Star TV split its beam on October 15 to provide two services, one to India and the Middle East and the other, to Greater China. It has also changed its programme schedule to suit the split market.

Star's chief executive Mr Gary Davey has indicated that there will be a seven-channel package for India soon, with more live sports programmes and aggressive, more localised programming development.

Mr Davey, who is backed to the hilt by his boss Mr Murdoch, plans to use the formula which turned around British Sky Broadcasting (BSkyB), to increase Star's flagging revenues. The difference in programming is already evident. When Star failed to renew its contract with MTV, it launched Channel V, a 24-hour music video network laced with Hindi and other Asian languages. The new channel has a nine-hour-a-day window for Indian audiences, and aims at 50 per cent local programming.

And Star's newest venture will be a tie-up with Zee TV, a Bombay-based Hindi language channel – which Star relays and part-owns – to create additional programming, and a second Hindi channel from India. Star launched its 24-hour movie channel, India's first pay channel in October. It has yet to catch on, but the network hopes to offset some of its losses through the pay channel.

With the cost of running the network estimated to be $150m, and a very real threat to Star's dominance in the region looming large, the network is working overtime to keep its Indian viewers hooked.

Shiraz Sidhva

The press flourishes in a babel of languagues, says **Alexander Nicoll**

Organs of democracy

About 20m newspapers are sold in India every day. This may seem small in relation to a population of some 900m, but it is still a lot of newspapers, and the total is growing.

The market is diverse, intensely competitive and, for successful proprietors, highly profitable.

In Maharashtra, the state of which Bombay is the capital, 62 daily newspapers are published, with a total circulation of more than 3m, according to Indian Newspaper Society figures. More than half of these publications are in Marathi, the most commonly spoken local language, but there are also dailies in Gujarati, Hindi, Sindhi and Urdu as well as English. A dozen English-language dailies are available in New Delhi.

Overall, India boasts 369 daily newspapers in a total of 18 languages. Add to that a vibrant magazine market: the fortnightly *India Today*, for example, publishes editions in five languages with a total circulation of around 1m.

Although the biggest selling newspapers are mostly in local languages, those in English tend to attract more advertising and thus to be more profitable. Increasingly, the trend has been for one English-language newspaper to win dominance in each individual city, and thus to be a strong cash producer for its owner.

The *Times of India*, for example, commands the market in Bombay but its desperate efforts have failed to dislodge the *Hindustan Times* from the top position in New Delhi. The *Deccan Chronicle* controls Hyderabad, the *Deccan Herald* dominates in Bangalore, and the Hindu in Madras. Calcutta has seen a fierce battle between the *Statesman* and the *Telegraph*, with the latter recently seeming to emerge on top.

Cutting across the trend in general interest dailies, newspaper groups have been seeking to establish broader national markets for business dailies. Most successful has been the *Economic Times*, published like the *Times of India* by by Bennett, Coleman & Co. It prints in six centres and has an aggressive pricing policy.

Some newspaper editors feel, however, that the American-style trend towards dominance of single newspapers in cities has been at the expense of quality and independence. Increasingly, the proprietors style themselves as the editors of their newspapers. Nevertheless, many newspapers are full of irreverent comment and incisive reporting.

Confidence in the industry's prospects is underlined by the fact that new publications are constantly being launched. Most recently, the Madras-based *Hindu* has begun a business newspaper, *Business Line*, and Mr M.J. Akbar, formerly editor

Confidence in the industry's future is underlined by the fact that new titles constantly appear

of the *Telegraph*, has founded the *Asian Age*, which has the innovative twist of being printed in both Delhi and London.

Given this editorial and commercial vigour, it is surprising to find sections of the Indian press so fearful about the possible lifting of a ban on foreign companies owning equity in the Indian media. They are worried that the Indian press will be swamped by foreigners and that Indian culture and sovereignty will be undermined.

The issue has been stirred by the plans of several foreign groups to invest in India. The *Financial Times* proposes to establish a joint venture with Ananda Bazar, a Calcutta-based group which publishes the *Business Standard* newspaper. Time Warner of the US wants to publish an Indian edition of *Time* magazine in collaboration with Living Media, publisher of *India Today*.

However, all such proposals are on hold because of the ban on foreign ownership imposed by prime minister Mr Jawaharlal Nehru in 1955. Mr P.V. Narasimha Rao, the present prime minister, has indicated that he favours lifting the ban in line with the government's liberalisation of other industries. But he clearly wishes for a public debate to be played out first.

Supporters of the ban see Indian politics rapidly being affected by foreign interests if it is lifted. *Frontline*, a left-wing magazine, argued in September that if foreign media were allowed entry, "the propaganda role played by the press in India will become much more emphasised, given the ideological and political agenda of these powerful transnational interests".

Although the government is seeking to keep the issue out of parliament on the grounds that the ban was an executive decision, there has been lively discussion in parliament. Mr Chandra Shekhar, a former prime minister, said in August: "The entry of foreign newspapers would strike at our civilisation, our culture, our traditions, our politics, our freedom of expression."

Mr Jaswant Singh, deputy parliamentary leader of the opposition Bharatiya Janata Party, wrote that foreign media "cannot improve the quality of our print media, our newspapers, our magazines, journals or periodicals in any significant manner. They will, however, constrict the existing cultural space of India."

That the ruling Congress party was divided on the issue became clear in August when Mr Chandulal Chandrakar, a former journalist who is now the party's spokesman, said in parliament that "if the Indian newspapers make liberal use of foreign news we can be sure that there will be pressures on us every day. It is therefore my ardent plea that there is no need to invite foreign newspapers and their proprietors to India."

However, Mr Chandrakar made an embarrassing about-face when he announced a few days later that party committees studying the issue had determined that foreign entry would do no harm. "After careful and detailed study of the newspaper scenario in the country and the changes in the environment it is felt that the Indian press can successfully compete with the foreign press and no-one should object to its entry slowly and gradually."

Hungry for the latest news and commentary: financial newspapers on sale outside the New Delhi stock exchange

Commentators who favour lifting the ban point out that foreign newspapers are already freely available in India and that Indian newspapers make liberal use of copy syndicated by foreign publications. Millions of Indians tune in daily to Star Television, owned by Mr Rupert Murdoch, particularly its Hindi language channel, Zee TV, of which Mr Murdoch owns half.

It is also argued that foreign companies could wait a long time to earn a return on their investments given the already intense competition – especially on price – in the Indian market.

However, emotional arguments stressing the specialness of the "fourth estate" have been stirred by the Indian media groups which feel vulnerable to foreign entry.

Mr N J Nanporia, a veteran former newspaper editor, wrote in the *Independent* that these arguments were essentially baseless. There had been, he said, a "deliberate creation of a fear which would not otherwise exist". The suggestion that Indian culture was so fragile was a denigration, not a defence, of India's tradition.

Mr Nanporia argued that the idea that the nation needed protection from a free flow of information and opinions was the basis of the 1955 ban but was incompatible with economic liberalisation.

Other commentators argue that Indian newspapers, which have argued for liberalisation in other industries, should not seek protection for themselves. Mr Sunil Sethi, a columnist, noted that foreign investment had pushed Indian industry to compete. "To now stand up and say that the advent of foreign newspapers will subvert India's future is a huge betrayal of national self-confidence or the spirit to excel. Who's afraid of competition?"

Police in Bombay: urban terrorism is an unpleasant new reality

Shiraz Sidhva considers India's sensitivity over charges of human rights abuse

Vicious circles of violence

Mr Shankarrao Chavan, India's Home minister, is indignant when questioned on India's human rights record, particularly if the criticism comes from international human rights groups.

"This is part of a disinformation campaign by Pakistan," he says dismissively. "We have a very long tradition of tolerance. The attack on our human rights record is coming from across the border – they should examine their own record first, and stop aiding terrorists here." India's human rights record has taken a battering in the last decade, mainly because Pakistan has worked at internationalising the dispute over Kashmir. Reports of the excessive use of force, particularly against armed insurgencies, in Punjab, Kashmir, and the North-East, have tarnished India's image considerably.

Earlier this year, top diplomats and politicians worked overtime to salvage India's reputation as one of the world's greatest democracies. One issue on which the ruling Congress(I) party and Indian opposition parties are agreed is that Pakistan's attempts to discredit India at international fora have to be countered effectively.

"The best way to counter what the Indian government calls Pakistani propaganda would be to improve the situation in Kashmir," says Mr Abdul Ghani, a leader of the All-party Hurriyat Conference, an umbrella organisation of political parties in Srinagar, Kashmir's capital. "But there are killings and torture in custody every single day, there are rapes of our mothers and sisters, and there are disappearances, with young boys being locked up in jail for months without trial. And India calls itself a democracy!"

Pakistan, which has fought two wars over Kashmir with India, and has itself been accused of arming and instigating separatists in Punjab and Kashmir, threatened to introduce a draft resolution at the UN Human Rights Convention in Geneva this March. But the hotly-contested draft was dropped at the last minute, and India won a temporary reprieve.

The government says that India's tradition of tolerance is undermined 'from over the border'

But human rights violations continue unabated. The US Human Rights Watch, in a report released in September, urged potential arms suppliers to "pay close attention to the government's record in Kashmir and Punjab, since it is in these states that government forces have committed some of the worst and most regular violations of human rights and humanitarian laws".

"It's no use if India concentrates on diplomatic games instead of actually improving its human rights record," admits a senior Home ministry official. "Even when there is a political will to to curb excesses, we find it impossible to combat an insurgency situation without force, especially with Pakistan pumping in money and guns to fuel the militancy."

India has always maintained that its democratic systems adequately monitor its own human rights record. It has consistently refused permission to Amnesty International to visit Punjab and Kashmir. But Amnesty's problem of access has more to do with its own rules, which do not allow fact-finding teams to visit countries or trouble-spots without formal permission from the governments concerned. Organisations such as the New York-based Human Rights Watch/Asia and the Boston-based Physicians for Human Rights or journalists and other individuals not seeking formal permission have never been stopped. "India genuinely upholds democratic values," says Mr Rajesh Pilot, minister of state for Home affairs. "But sometimes things do happen here that are beyond our control."

"Over the decades, a political culture inimical to human rights achievement has developed," explains Mr Upendra Baxi, professor of law and former vice-chancellor, Delhi University.

The commission on human rights set up last year has been described as a 'toothless watchdog'

"The impunity of leading political players, who defy even the criminal law of the land; the unredressed despotic use of public power; abuse of national security laws; regime-tolerated or sponsored violence victimising hapless citizens; torture and inhuman treatment in penal institutions; the excessive use of fatal force or 'encounters'; custodial assault or violence against women and the abuse of discretion to prosecute are all manifestations of this."

Tired of the constant criticism, the Indian government appointed a National Human Rights Commission last year. The Commission, headed by a former chief justice of the Supreme Court, has been accused of being a "toothless watchdog". Excluded from its purview are the armed forces and the paramilitary, against whom grave allegations of excesses in Kashmir, Punjab and the North-eastern states have been made. This has eroded the Commission's authority to conduct independent investigations of human rights abuses.

The Home minister says that this is done to protect the morale of the armed forces, already operating under extenuating circumstances. "We are forced to take extraordinary measures in extraordinary circumstances," says Mr Chavan, defending the government's refusal last month to withdraw the Terrorist and Disruptive Activities (Prevention) Act (TADA), in the face of strong criticism at home and abroad.

Introduced in 1985 to combat terrorism in Punjab, TADA provides for special "designated" courts with severely curtailed rules of procedure, reducing the rights of the accused, and reversing the burden of proof on to the accused. TADA prohibits bail and allows the death penalty to be imposed for certain offences committed by "terrorists" – a term so broadly defined that it may include people who non-violently express their political opinions.

The Act also permits "confessions" to the police as evidence, legalising torture in custody. In September 1991, paramilitary forces burned down rows of wooden houses destroying entire villages in rural Kashmir because TADA empowered them to destroy any structure used to shield terrorists.

This year, the government was forced by human rights activists and politicians to review the Act, which has been termed "draconian". But the Supreme Court validated the Act in March because of its stated objective of dealing with terrorism, and the Home minister ruled out its repeal last month.

"TADA has no place in a democratic society, it is tailor-made for abuse," says Mr Ravi Nair, executive director of the South Asia Human Rights Documentation Centre. "TADA is more deadly than any law imposed during the South African or Pinochet regime [in Chile]."

Recent studies have revealed that out of 47,434 cases registered under TADA till March this year, not a single individual involved in a terrorist act has been convicted so far. The only convictions have been for illegal possession of arms.

One reason why TADA has failed to combat terrorism is that it cannot counter the fear of terrorists among witnesses, prosecutors and even judges, who have been known to let off offenders in the face of glaring evidence.

In Gujarat and Tamil Nadu, where there have been few terrorist incidents, the Act has been widely misused to silence political opponents. It has also been used to harass members of the minority Moslem community, or even to settle landlord-tenant disputes. In some states children, and even mothers of suspected terrorists have been locked up without trial.

Mr Chavan says he has written to chief ministers in all Indian states asking them to review TADA cases and ensure that there is no misuse. "Ultimately, the Centre can't do anything, because jurisdiction has been given to the states to tackle an extraordinary situation."

The National Human Rights Commission has strongly opposed the Act. Justice Ranganath Misra, its chairman, has asked for the Act to be repealed, and is filing a review petition at the Supreme Court challenging the Act's constitutional validity.

"India will never be able to better its human rights record if it continues to accord impunity to those in power," says Mr Nair.

Foreign brands move in, writes **Naazneen Karmali**

Coca-Cola is back

Foreign goods, once debarred by the government, are swamping Indian stores.

Liberal policies have attracted hordes of multinational companies to this vast market. Though imports of consumer goods remain restricted, these multinationals are banking on India's middle class of 200m people and their fascination with Western products and foreign labels. Some companies have discovered that the shortest route to reach potential consumers is to buy up local competition.

Coca-Cola chose to enter India this way. In September 1993 it paid $40m for the trademarks of Parle Exports, a private company in Bombay. *Parle's 60 per* cent market share in the Indian soft drinks industry could have been a significant entry barrier. Instead, Coke became market leader overnight by acquiring Parle's business of 60m cases annually.

Ironically, Parle owed its pre-eminent market position to Coca-Cola. In 1977, following the government's policy *restricting foreign ownership* of companies to 40 per cent, Coca-Cola had shut down its *Indian operations. Coke's* departure created a vacuum in the market that Mr Ramesh Chauhan of Parle moved in to fill with his cola concoction branded Thums Up.

Since then, Mr Chauhan had defended his brands staunchly against competition. Pepsico, which entered India four year ago, had to fight Mr Chauhan every inch of the way to get to the number two position. Being a shrewd businessman, Mr Chauhan negotiated with both Pepsi and Coke before selling out to the highest bidder.

Mr Jaydev H. Raja, Coca-Cola India's president, says that "India was one of our last major frontiers. The question was always when, not if."

Originally a resident of Bombay, Mr Raja joined Coca-Cola *15 years ago. He was sent from* Coke's headquarters in Atlanta *to lead* the comeback into India. In 1992 the company announced a joint venture with a non-resident Indian businessman. That plan was later abandoned in favour of a 100 per cent subsidiary.

The government approved Coke's proposal in June 1993, allowing it to set up a blending plant at Pune in the state of Maharashtra. Pepsi's project in comparison, approved before the regulations were eased, was weighed down by export commitments and other conditions.

Apart from brands, the Parle deal provided Coke instant access to an existing infrastructure. Now 58 bottlers, all formerly with Parle, have exclusive licensing arrangements with Coke. The bottlers *have had to* invest in upgrading their production facilities and in new "glass float" – 300 ml refillable Georgia green glass bottles especially designed by Coke. Carbonated drinks in India are sold not in cans but bottles, which, when empty, are returned to the local bottling company.

Since its first launch a year ago in the northern city of Agra, *Coke has rapidly* extended its presence to eight other cities.

Shortly after the Agra launch, crates of Coke found their way into the "grey" market *in Delhi where they* were sold for a 100 per cent premium.

The curiosity of consumers *to taste* the real thing has ensured *high* initial trial rates. By convincing bottlers to trade off an erosion in margins for higher volumes, Coke offered a 300 ml bottle *for* Rs5 as against Pepsi's 250 ml serving priced at Rs5.50. Mr Raja says that this more-for-less pricing strategy will drive sales forward in long term.

The biggest problem in this business is breakage and pilferage of bottles which reduces the glass float with *bottlers. Coke tackled this by* substituting Parle's shallow *wooden crates* with full depth, stackable plastic crates which cover the bottles to the crown. Old rack body trucks were replaced by a fleet of closed trucks that allow pallet loading. A fleet of 6,000 pushcarts and tricycles mounted with bright red umbrellas are taking Coke into congested city areas. These measures will make distribution quicker and faster, says Mr Raja.

A year end stocktaking shows that Thums Up continues to be market leader in the cola segment and Coke has sold an estimated 7.5m cases. Though competitors have often accused Coke of buying Thums Up only to kill it, Mr Raja says that Thums Up's unique spicy taste has its own following. Coke is also planning to launch Fanta and Sprite shortly.

The eagerness of consumers to sample the real thing has ensured a high level of interest in the initial trials

Pepsi has countered Coke energetically. It has installed 3,500 fountains in major towns to increase its retail presence. It has offered price cuts, special deals and free offers from time to time. Pepsi has also taken over Dukes, a regional manufacturer in Western India, thereby boosting its market share from 26 per cent to 34 per cent.

All this competitive activity will expand the market, says Mr PM Sinha, chief executive officer, Pepsi Foods. The market growth rate is expected to step up from 5 per cent to 15 per cent annually. Since Coke's launch, the industry's annual sales have risen from 110m cases to 120m cases.

Both companies see an enormous potential. Indians are poor consumers of fizzy drinks, with annual consumption being three servings per person. In neighbouring Pakistan, per capita consumption is four times as much.

Mr E. Neville Isdell, senior vice president Coca-Cola Company and president, Northeast Europe and Middle East group, says that the key to building market share is *growing the market*. "We're looking for incremental growth on top of the brands that we've acquired", he says.

Madhya Pradesh is flexing its industrial muscles, writes **Gordon Cramb**

Some places feel like Japan

In his office, Honda's Mr H Masuda dispenses green tea. He wears a white uniform, as does everyone else at this scooter manufacturing plant. Compulsory morning exercises are followed by group production meetings. The company union avoids strife and is unaffiliated to any umbrella labour organisation.

Apart from the complexion of his fellow-workers, only two things belie the fact that this could be Japan: the relative lack of automation in the assembly process, and the handle on the colonial-style teacup.

Mr Masuda is on secondment as technical director of Kinetic Honda, 51 *per cent* owned by the Japanese automotive group. Its factory is at Pithampur, an industrial zone in the central state of Madhya Pradesh which lays claim to be the Detroit of India.

The title is presumptuous, as no cars are produced there. But Hindustan Motors has a plant for passenger vehicle engines, and Mitsubishi operates a joint truck making venture. *Officials say it* and Volkswagen of Germany are seeking land for possible car assembly.

Pithampur, near the commercial centre Indore, is one *of two dozen growth* areas designated by the Madhya Pradesh government with the aim of promoting industry in backward parts of the country's biggest state. Others include Mandideep, on the outskirts of the capital Bhopal, from where Procter and Gamble of the US supplies the Indian market with Ariel washing powder.

Progressive state governments in India are competing fiercely for new investment, domestic and foreign, with packages of incentives and concessions. In the case of Madhya Pradesh these offer a *holiday from state commer*cial taxes of up to seven years, and single-window clearance of projects to expedite approvals.

Another main thing Madhya Pradesh can provide is a central location, with road, rail and air arteries reaching each of the biggest cities in roughly equal time. But its position (as the region's publicists would have it) "at the heart of India" is also a drawback: the state is landlocked.

Undaunted, the AVN, the industrial development corporation, is seeking to buy

Congress Chief minister Digvijay Singh Picture: Rakesh Sahai

waterfront land in Gujarat to *the west in order to build* a deep-water jetty. This it believes would stimulate an edible oils industry in Madhya Pradesh based around soyabeans, of which the state *accounts for 80 per* cent of Indian production. Most output is sold as cattle feed.

Through similar interventions the state authorities have restored an air service to centres abandoned by Delhi's government-owned Indian Airlines – taking a stake in a private carrier with the requirement that it include specified destinations – and built India's first toll road as an alternative to the pitted national highway which serves Pithampur.

Poor roads and power shortages are, as elsewhere in India, the two handicaps most *frequently cited by business*men. Export-oriented industries enjoy a protected electricity supply and Mr S K Jain, president of Indo Rama *Synthetics, an Indonesian*-controlled spinning mill which employs 1,550 in Pithampur, says that "in three years we have not shut down once because of a power cut".

But he adds that his parent company has chosen a site near Bombay in Maharashtra state for its newest facility because of easier access to a port.

A state industrial policy set out in May acknowledged that "accelerating the pace of development requires the expansion and strengthening of infrastructure" and that this necessitated private sector involvement. To this end, Bhopal's budgetary allocation for industry is planned to rise to 7 per cent from 4 per cent over the next two years.

In trying to close the gap with Maharashtra and Gujarat, its two main rivals, the state's extra spending is intended to bring in private capital rather than create public sector employment. If the government sets up industrial projects on its own "we are not going to be very efficient," says Mr M P Rajan, managing director of the AVN.

Uniquely, he couples this bureaucratic role with that of Madhya Pradesh president of the private-sector Confederation of Indian Industry. "No other state would allow this," he says. "The government doesn't even mind if I criticise their policies." Ultimately he wants to shift majority control of the AVN itself into private hands.

Madhya Pradesh has its share of state industries, some of relatively recent origin, for which new roles need to be found.

There are, for example, no plans to privatise Optel, set up in 1989 as an integrated maker of telephone cable, optical fibre and telecoms equipment, but it is seeking joint ventures with Japanese industry majors.

The present Congress party government headed by Mr Digvijay Singh, chief minister, came to power in elections last December after Delhi ended a troublesome period of rule by the Hindu militant Bharatiya Janata party. Unlike leaders of several other states, Mr Singh is still a full four years from the next polling day and can shape economic policy without looming electoral considerations.

While accepting that new private investment is likely to become increasingly capital-intensive, he stressed in an interview that "wherever government comes in, we would rather have it labour-intensive".

However, Mr Singh, a 47-year-old engineer, said he supported "a massive dose of privatisation in infrastructure" which would help the government maintain social spending while increasing the proportion of the budget devoted to industry.

Mr Singh claims to favour a 'massive dose of infrastructure privatisation'

Madhya Pradesh has lower literacy levels and higher poverty and infant mortality *rates than the Indian average.* It also remains less urbanised. The European Union is the main backer in a primary education programme for deprived areas of the state which will be worth some Rs7bn over seven years, the largest such scheme in India.

But another large scheme, from which multilateral donors have withdrawn backing, threatens to cause unprecedented upheaval to rural communities.

The chief minister reaffirmed his government's commitment to the Narmada Dam project which will flood vast tracts of the south of the state, saying only that it was "only hesitating on the issue of lowering the height" of the dam wall. Such a reduction, he indicated, could reduce by *at least a quarter the 100,000* people who would be uprooted while losing a rather smaller fraction of the expected generation capacity for hydroelectric power. His figures are not far out of line with those cited by local aid agencies, but they argue that the greater clout of Gujarat and Maharashtra, which are to share in the project while avoiding most of the resettlement problems, would mean that their wishes were more likely to prevail. The World Bank pulled out after campaigners highlighted social aspects of the project.

Narmada, if it is a disaster, is at least one the locals can see coming, and one which was decided by their politicians. That was not the case nearly a decade ago when a leak of poisonous gas from the US-controlled Union Carbide factory in Bhopal killed thousands of mainly slum-dwellers and hardened attitudes across India against *multinationals. In September,* amid a mass of litigation, a takeover by domestic interests was finally agreed.

Social and environmental questions will also surround future foreign involvement particularly in the energy and mining sector, where de Beers of South Africa is poised to land diamond exploration rights over as much as 20,000 sq km in an eastern area of *the state with a large tribal* population.

The state has other minerals such as coal and iron ore, but these areas are largely coterminous with forests. Perhaps conveniently, forestry and mining fall under the same ministry in Bhopal.

The government is trying to close the state mining corporation, though arranging the transfer of workers has been slow.

Long-term contracts to supply iron ore to Japan are being wound down as the recession in that country has reduced demand for steel.

Demand for Kinetic Honda's scooters has brought large-scale export orders from as far afield as Mexico and Turkey. As Mr Masudah and his local colleagues sip their tea, *Madhya Pradesh is trying to* offer other foreign investors a handle on India.

Married life is not what it used to be, writes **Shiraz Sidhva**

Bedroom farce or tragedy

The wealthy *middle class, at the heart of* India's emergence as one of Asia's most promising markets, are finding it hard to reconcile the flashy images on their television screens with the *traditions* and values they have inherited.

As this group of an estimated 250m urban Indians is remorselessly targeted by *business houses for its purchasing* power, it is undergoing dramatic social changes, and marriage and the family are coming under increasing scrutiny.

"*Urban Indians are going through* a phase like that the West experienced in the 1970s," says Ms Sheela Batra, a sociologist at Delhi University. "Family values *are fast eroding and marriages* are not longer sacrosanct as they used to be, even 10 years ago."

But look through the matrimonial classified *ads in Delhi's two leading newspapers* on Sunday, and you would think that the more things change the more they stay the same.

The Times of India and the *Hindustan Times*, those venerable papers locked in price wars and circulation-boosting gimmicks, have changed the format of *their most-read pages, ostensibly* because readers have limited time and would prefer the paper to offer them brides and grooms made to order under the desired heading.

Caste considerations may have receded in "*modern*" *urban India*, but traditional systems of segregation have given way to others in the new market economy. Business women, bank officers, *bureaucrats* and *non-resident* Indians all come neatly packaged under different headings.

Read the fine print, and you see a *constant* demand for husbands who are engineers, chartered accountants, doctors, civil servants, employees of foreign banks and multinationals, masters of business *administration*, those with five-figure salaries.

They must also, of course, be handsome and, better still, non-smoking tee-totallers *from cultured families*.

Those hunting the ideal woman frequently *specify* that beside being fair, slim, beautiful, tall, sweet-tempered, well-mannered, sober and homely, she should also be a convent-educated virgin!

Money is always a great leveller. A father who wants his less-than-immaculate daughter to tie the knot merely has to say that he is willing increase the dowry and the imperfection will be overlooked.

With increased consumerism come *higher demands* for dowry, and there are "fixed rates" for grooms of different professions. Working women are now more acceptable as potential brides than *in the past*.

"A working woman is like a goose who continues to lay golden eggs, and is now a more attractive proposition than a woman who brings a one-time dowry," says Ms Madhu Jain, a senior editor with *India Today*, who writes on changes in Indian society.

"As more women enter the workplace, marriages are undergoing strains not experienced even 10 years ago," says Sheela Dutta, a marriage counsellor. "It's not as if the stress is confined to a new generation – some of my clients have been married for over 20 years." As age-old social structures such as the joint family collapse, roles within the home are no longer well-demarcated.

"Many couples have a problem resolving the power issue," explains Dr Bindu Prasad, clinical psychologist and family therapist. "There are invariably problems when the families of the husband and the wife don't match, or have strong cultural differences. While building up a new unit comprising husband and wife they have to work out a system separate from their families."

Dr Prasad finds that a lot of problems stem from the fact that Indians are over-attached to their parents. "Women are asserting their individuality and demanding more rights, while men are finding it hard to accept that their wives are increasingly less like their mothers," adds Dr Prasad.

South Indian wedding: parents have a big say Picture: Images of India

Mr Anand Grover, a Bombay lawyer whose firm represents only women in divorce cases, is more specific. "Indian men are male chauvinist pigs. They have not been able to accept that women are going to work or come to terms with the new woman."

He adds that divorce is no longer the dirty word it used to be even a decade ago and that, although statistics are not easily available, divorce cases in Indian courts have increased dramatically over the last decade.

The "new Indian women" – and the new man – belong to the English-speaking urban elite, and come to terms with divorce in much the same way as couples in the West do.

Most marital breakdowns are terribly boring and have nothing specifically Indian about them. But there are also local features such as the tragic recent case of a young mother of three, who died of 100 per cent burns. The police, writing off her death as an accident, said it was not their practice to investigate the state of a dead woman's marriage where she had been *married for* more than seven years.

She was an example of a woman caught in the web between tradition and modernity. She was educated enough to *leave* her family in the countryside to come to Delhi and live with the man she loved, but she missed the security she felt an arranged marriage would have *provided* her.

She defied her mother-in-law and insisted that she and her husband have a separate home. Even though her husband *battered* her, she felt obliged to defend him.

Her death recalled the investigation carried out by women's rights groups, and *later the police*, into a spate of cases in the early 1980s in which wives died by fire in their homes.

Indian women who cannot afford to use *gas, cook on* kerosene stoves on the floor, and sometimes their clothes catch fire or the stove explodes and they die.

What emerged was that in several cases the *fatal fires* had been caused by the women's husbands, (often with the help of the husband's families), who thereby became free to marry again for another dowry. *While there was no suggestion that* she had died in this way, there was no evidence that her husband had tried to save her life.

"Ours was a *love marriage*," *she once* told a friend. "I made a mistake not marrying the man my parents chose for me. This way I expected too much, and that's why I got so *little*."

India has become one of Asia's busiest tourist markets, but where are the hotels?

It's hard to get a decent room quickly

For the first time in decades, Indian hoteliers were pleasantly surprised to see room occupancies soar in the summer in spite of inhospitable temperatures, writes *SHIRAZ SIDHVA*.

Hotels in the main metropolitan centres *have traditionally suffered* room gluts between April and August. This year they were so full that they withdrew the usual off-season discounts and had to turn away some of their regular clients.

"It's now virtually impossible to get a hotel room at short notice," says Mr Prateek Chawla, director, Outbound Travels, Delhi-based travel agent and tour operators. "For the business traveller, there is no off-season."

The Indian hospitality industry is reaping the benefits of the government's liberalisation programme, which has made India one of Asia's most attractive emerging markets. The top hotel chains – the Taj group, ITC Hotels and the Oberoi group – will invest nearly Rs30bn in new projects over the next five years, concentrating *for* the first time, on building budget hotels rather than five-star ones.

The current total of 52,000 rooms in fewer than 900 government-approved hotels across the country is woefully inadequate to cater to an estimated 5m tourist arrivals *by 1997 (double last year's figure* of 2.2m). The government has therefore cleared 524 hotel projects (till March this year), or *28,000 additional rooms*.

Industry watchers doubt that all the proposed investment will materialise, but the tourism ministry has set an ambitious target to build 125,000 rooms by the year 2000. Several international hotel chains are tying up with Indian partners, taking advantage of the fact that the government now allows foreigners up to 51 per cent equity in the hotel industry.

The US chain, Holiday Inns Worldwide, *has* tied up with Inn Realty (owned by a group of non-resident Indians) to open Holiday Inns in the Himalayan mountain resorts of Nainital and Manali, and four-star hotels in nine Indian towns. The chain will spend more than Rs500m on its plan to build 70 hotels across India in the next four years.

The Australian Southern Pacific Hotels Corporation, which seeks to "create a base" for its two primary brands, Parkroyal and Travelodge, has signed an agree*ment with Hospitality Resorts, an Indian* company, to manage its Penta Goa Hotel, being rechristened the Regency Travel*odge Resort. The group has invested* about $2m in Indian projects so far, and is building three new hotels, in New Delhi, Madras and Bangalore.

Other hotel chains entering the Indian hotel industry include the Hong Kong based Four Seasons, which has signed an agreement with the Bombay-based Leela Group, the US-based Marriott, which may tie up with the Indian Shaw Wallace group, and Radisson of the US, which has tied up with Singapore-based Scotts Holding and two Indian partners to build and manage at least 12 projects, including three-star inns.

"India has never built for tomorrow, always yesterday," says Mr Rabindra Seth of ITC Hotels, who has been part of the industry for over 30 years. He points out that there are more hotel rooms in cities like Singapore, Hong Kong, Bangkok, London and Toronto than there are in the whole of India, for all its size and wealth *of tourist attractions*.

In New Delhi, the capital, no new hotel has been built since 1982, when more than a dozen hotels were hurriedly constructed for the Asian Games, creating a glut for years. "If we are to cater to 5.5m tourists and business travellers by the turn of the *century, then we need at least twice as* many rooms as we are offering now."

The unavailability and cost of land, particularly in the big cities, has deterred new investors. *Socialist* governments in the past regarded luxury hotels as "necessary evils", and levied prohibitive taxes on them, making hotels less viable than they could have been.

While expenditure tax has been halved to 10 per cent, land continues to be a major deterrent. The current boom has spawned a whole new breed of first-time hoteliers, many of whom are land developers, builders and contractors.

Entrepreneurs such as Shaw Wallace, the large liquor group, and Mahindra and *Mahindra*, the Bombay-based heavy engineering, tractor and automobile manufacturers, have diversified into hotels thanks to their ability to withstand the long gestation periods associated with this business.

"One of the main stumbling blocks in the hotel industry is the acquisition of *land*," says *Mr Seth*. "Builders are best equipped to tackle that part of the problem, and will often allow professional hotel companies to run the hotels for *them*."

Foreign investors are also joining non-resident Indians (NRIs) allowed to buy land.

Mr Dadi Balsara, a Singapore-based NRI businessman has recently announced a joint venture with Howard Johnson Franchise systems of the US, to build 10 three-star hotels, with plans to build, acquire and franchise more than 70 hotels in the next five years.

India's leading luxury hotel chains are also developing medium-sized hotels, to fill the yawning gap between luxury five-stars and cheap hotels that lack the most basic amenities.

East India Hotels, which owns the Oberoi chain will start 11 new hotels in the deluxe, first class and budget categories, investing Rs4.75bn over the next four years. The group recently started its mid-market Novotel and Trident chains, and is exploring an even more affordable class of budget hotels.

ITC Hotels, a subsidiary of the tobacco and paper group plans to invest Rs7bn in the next *six* years, *out of which* Rs2bn will be earmarked for the middle segment. The company, which owns and manages the Maurya Sheraton hotel in New Delhi, has entered into a joint venture with MS Shoes, who recently acquired land through a Rs640m bid to build a Rs1.6bn, 400-room super-deluxe hotel in the capital. ITC will *expand* its Bombay and Madras properties, and is keen to acquire land for a hotel in Calcutta, where its parent company is headquartered.

The Taj group, which *owns and manages* more than 40 hotels, including the legendary Taj Mahal hotel in Bombay, has the most ambitious expansion programme in the country.

Mr Pankaj Baliga, the group's vice-president, sales and marketing, says *it* will invest over Rs15bn on 50 new hotels, including 10 wildlife lodges near game sanctuaries, and golf and beach resorts. "We are very environment-conscious," says Mr Baliga, insisting that the Taj hotels will take extra care not to disturb the environment.

FINANCIAL TIMES
COMPANIES & MARKETS
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Tuesday November 8 1994

IN BRIEF

Danske to take control of Baltica

Den Danske Bank, the Danish commercial bank, is to acquire a controlling interest in Baltica, Denmark's largest insurance company. The deal will make Danske *a significant force in the country's* life assurance and personal accident insurance business. Page 20

Siemens in multimedia alliance
Siemens, the German electrical and electronics manufacturer, has formed an alliance with Scientific Atlanta and Sun Microsystems, of the US, to develop and market systems for the multimedia market. Page 20

Minolta returns to the black
Minolta, the Japanese maker of cameras and office machinery, returned to the black in the first half, thanks to cost-cutting and increased sales. Page 24

SA glass group rises 16%
Plate Glass and Shatterprufe Industries reported a rise in after-tax income to R114.9m ($32.66m) for the six months to September. Page 22

Acquisitions boost Email
Email, the Australian white goods and building products company, announced a 35.8 per cent increase in interim profits, for the six months to end-September, to A$45.5m (US$34m). Page 22

Record oil results boost CanPac
Canadian Pacific, the transport, resource, hotels and property group, registered a third-quarter profit of C$87.6m (US$64.5m), due to record results from its oil and gas subsidiary. Page 23

Brierley lifts NZ media stake
Brierley Investments, the New Zealand hotels and investments group, yesterday said it had acquired a 29 per cent stake in Wilson & Horton and was withdrawing its offer to buy shares in the publishing company. Page 22

Allied Domecq sells ingredients unit
Allied Domecq, the UK food and drinks group that has decided to concentrate on spirits and retailing, yesterday sold its food ingredients businesses for a total of £265m ($434.60). Page 26

Kenwood cash call for Italian purchase
Kenwood Appliances, the UK household appliances producer, yesterday accompanied its interim results with a rights issue to fund the £22m ($36m) acquisition *of an Italian manufacturer*. Page 29

ABF held back by investment fall
A sharp fall in investment income depressed profits at Associated British Foods, the milling, baking, and sugar group which was restructured earlier this year. Page 28

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Aachen Mch	1030	+	30	Credit National	408.2	+	34.6
Falls				Interbail	380.1	+	10.1
Douglas Hldg	428	–	12	**Falls**			
Karstadt	598.5	–	18.5	Air Liquide	718	–	21
Kaufhof	482	–	17.5	Alcatel Alsthom	481.9	–	11.1
Leifheit	620	–	15	Carrefour	2210	–	55
NEW YORK ($)				Paribas A	354.1	–	15.9
Rises				**TOKYO (Yen)**			
Apple Computer	40¾	+	¾	**Rises**			
CBS	55⅝	+	⅝	Sailor-Pen	836	+	57
IBM	71⅞	+	¾	**Falls**			
Motorola	58⅝	+	⅛	Mizuno Sporting	960	–	40
Falls				NEC	1180	–	40
Chrysler	46	–	1⅞	Nissan Motor	794	–	30
Snapple Beverage				Nissei Sangyo	1370	–	60
	13⅞	–	⅞	Nitsuko	1310	–	70

New York prices at 12.30pm.

LONDON (Pence)				Wyndeham Press	139	+	8
Rises				**Falls**			
Billam (J)	148	+	13	BAA	492½	–	24½
Capital Radio	280	+	25	British Land	388	–	10
Control Tech	468	+	83	BP	416	–	11½
Dickie (James)	163	+	9	Courtaulds	440	–	19
Elliott (B)	99	+	10	Forte	226½	–	7
Fairway	82	+	8	Kenwood	350	–	14
REA Hldgs	153	+	20	MAI	218	–	7
Sleepy Kids	55	+	5	MS Int	29	–	4
Tadpole Tech	423	+	20	Proteus Int	232	–	28
Thorpe (FW)	235	+	10				
Trace Computers	49xd	+	10				
TransTec	56	+	4				
Wickes	93	+	3				

IBM agrees hardware standard

By Louise Kehoe in San Francisco

International Business Machines, Apple Computer and Motorola *yesterday confirmed details of an* agreement to develop a common standard specification for personal computers.

Based on *PowerPC* microprocessor chips, their goal is to establish a new PC standard, challenging the domination of Microsoft's Windows and Intel's microprocessors which are used in about 85 per cent of PCs sold.

Industry analysts said, however, that the move may be "too little, too late" because while the PowerPC partners have established a hardware standard, they have failed to agree on an operating system software standard. *Instead, the companies said they* would build computers that adhere to a new "hardware reference platform" specification that *will run a broad range of software.*

The standard PowerPC design will support several operating systems including Apple's Macintosh software, IBM's OS/2 and AIX (a variety of UNIX) and Microsoft's Windows NT, the companies said. Novell and Sun Microsystems will also develop versions of their operating systems for the new PowerPC standard.

The PowerPC alliance, formed three years ago, has so far been thwarted in its efforts to unseat Intel and Microsoft by a lack of support from software companies, *which have put most of* their resources into developing application programs for Intel-Microsoft standard PCs.

The situation has been exacerbated because Apple's Power Macintosh PCs, launched earlier this year, are not compatible with PowerPC products being developed by IBM and Motorola.

By establishing a PowerPC hardware standard, the companies hope to broaden the market, drawing software support and encouraging other computer companies to build compliant products. However, the market for software for PowerPC computers *will remain fragmented among* the various operating systems, analysts pointed out.

Computers based on the new PowerPC hardware standard will not reach the market until 1996. In the meantime, Apple, IBM, Motorola and other computer companies that have been developing PowerPC-based PCs will have to redesign their products.

Mr Michael Spindler, Apple president and chief executive, said that the new hardware standard *will* enable Apple to broaden its sales.

"We believe that an openly licensed Mac OS running on top of an open, industry standard RISC hardware platform represents a broadside against the reigning "Wintel" [Windows-Intel] platform, and will play a key role in our ongoing efforts to greatly increase the presence of Macintosh in all markets," he said.

Citibank enters UK retail market

By John Gapper, Banking Editor

Citibank, the US money centre bank, is entering retail banking in Britain for the first time. The bank expects to open six branches by the end of 1995 in an effort to build a global branch banking network.

The bank has opened its first retail branch in the Strand in London and expects to open a further three in London. This follows the opening of three "model" branches in Paris last year.

Citibank executives said yesterday that it might eventually establish a large network by acquiring a building society. But for at least three years, it would only offer a niche service for professionals who travel widely.

***It will* offer 24-hour telephone banking, and sophisticated automated terminals which can be used in the US for stockbroking. Customers are required to keep at least £2,000 ($3,280) in a current account to avoid fees.**

The bank has about 500 branches in Europe, including 301 branches in Germany, 96 branches in Spain and 62 branches in Belgium. It bought the former Kundenkreditbank (KKB) in Germany in 1974, changing the name three years ago.

Mr Victor Menezes, executive vice-president in charge of consumer banking in the US and Europe, said the bank was "not planning a mass market assault", in Britain but would aim at the "large international population" in the south east.

It wanted to establish a niche presence first, and might then re-consider an expansion into the broader UK retail market.

Citibank is aiming to attract "tens of thousands" of UK customers. *But, Mr Menezes said* that the main aim was to establish a link in its global network of branches, which includes 117 in the Asia Pacific.

Citibank already has a $2.2bn residential mortgage portfolio in the UK, making loans through intermediaries. In the early 1970s, it closed a small network of "money shops" which had offered personal and consumer loans.

The bank's retail franchise in emerging markets is highly regarded by analysts. According to the bank, its $10.9bn of revenue *from consumer businesses* last year outstrips the $8.5bn of Disney, and the $7.4bn of McDonald's.

US bank links with UK fund manager

By Norma Cohen in London and Richard Waters in New York

Gartmore, the UK fund manager, has formed a joint venture with NationsBank, America's third biggest bank, which will allow it *to sell international fund management expertise to US retail* and pension fund investors.

Mr Paul Myners, executive chairman of Gartmore, said the *venture will give Gartmore distribution outlets* to build a US presence.

NationsBank is the US's *second largest bank distributor of* mutual funds and Gartmore hopes to capture some of the fast growing market for individuals who choose their own pension fund manager, he said. The venture will also target the US "defined benefit" market which pays pensions to individuals based on their final salary and the US mutual fund market.

"To make any inroads into this market you need strong branding and strong retail distribution," Mr Myners said.

Under the agreement, no cash will change hands immediately. However, if the total assets of the venture total $5bn or more within five years, NationsBank has an option to acquire 10 per cent of Gartmore, in newly issued shares, at 200p per share.

Mr Myners said that while the venture will make little contribution to earnings in the short term, it should provide a source of significant growth long-term.

The venture will have the $540m managed by NationsBank *Panmure Investment Management*, the fund management arm of stockbrokers Panmure Gordon, also owned by NationsBank. Also, if clients agree, it will capture the $230m in assets under management at Gartmore's existing US operation, which will be absorbed into it.

Analysts said the move is important for NationsBank which has been less successful than other big US regional banking groups at developing and selling its investment products.

Another joint venture, with stockbroker Dean Witter, will be unwound next week after *just* 16 months. NationsSecurities has been the subject of lawsuits from customers, who claim that it failed to make clear that its investment products were not covered by the federal bank insurance fund.

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Raymond Snoddy reports on optimism ahead of planned flotation

TeleWest looks to US model for growth hopes

TeleWest, the largest UK cable operator, yesterday pushed ahead with its flotation plans with a pathfinder prospectus suggesting a total value for the company of between £1.61bn and £1.86bn ($3.05bn).

An offer price per ordinary share, which will be between 165p and 190p, will be announced on November 22 and TeleWest is *scheduled on November 30 to* become the first cable company to be listed on the London Stock Exchange.

The aim is to raise between £330m and £380m in new money with the sale of 216m ordinary shares in London and the Nasdaq market in New York representing 26 per cent of the enlarged issued ordinary share capital – 22 per cent on a fully diluted basis.

Mr Alan Michels, chief executive of TeleWest, a joint venture between TCI of Denver, the largest US cable operator and US West, the regional telephone company, said: "We believe that cable is a major growth area, that the UK offers a most attractive regulatory regime for cable, and that TeleWest is exceptionally well positioned in the UK cable market."

There is already informal investor interest in as much as three quarters of the offering at the midway price. Such interest suggests a change in perceptions about UK cable and in particular *about a company that still has to* spend another £1bn to complete its networks and which is unlikely to be profitable before 1998 at the earliest.

The main reasons for the increasingly positive sentiment include:

- The growing importance of cable's dual revenue streams from television channels and telephone services. Ordinary cable television subscriptions stand at around *800,000* with hopes for nearly 1m by the end of the year. By October 1, 570,656 telephone lines were installed, compared with 244,946 *a year ago.*
- Growth in the stock price – 48 per cent since August 1 – of the first three UK cable companies to be quoted on Nasdaq: Bell Cablemedia, Comcast UK and International CableTel.
- Excitement over superhighways of the future. US cable operators say that in the US they talk about the superhighway but in the UK it is being built – by the cable companies. Cable offers a clear route into video on demand and interactive services if the consumer interest is there.

The hope is that the UK will eventually follow the US pattern on cable. In the US cable first reached 10 per cent of homes, *slowly crept up to 25 per cent* before taking off to attain 60 per cent penetration on the back of an expansion of programme choice. "We would expect and we believe the same thing will happen here," said Mr Michels.

In the UK however cable penetration – the ratio between homes which can subscribe to those that actually do – has remained at around 21 per cent for some years although the *actual number of subscribers* continues to rise as more cable networks are built. Unlike the early days of cable in the US, cable in the UK must develop alongside a mature video market and more than 2.5m installed satellite dishes.

TeleWest owns and operates 16 cable franchises while affiliated companies own a further seven. The franchises account for 3.6m homes and 235,000 businesses. TeleWest has a 100 per cent equity interest in a total of 2.8m homes – aggregating the minority interests – and 180,000 equity *businesses.*

By the end of September TeleWest had around 188,000 equity cable subscribers, 125,000 residential telephone lines and 17,000 equity business lines. In the 12 months to the end of September, revenues were £63m, a fivefold increase since the financial year ending December 1991.

Mr Michels wants to increase average penetration by 2 percentage points to 23 per cent by the *end of this year and by a further* 2 percentage points by the end of next year. To achieve this, TeleWest will support an industry-wide advertising campaign on the merits of cable, sell cable more extensively through high street outlets as well as door-to-door marketing, and try to negotiate more flexible terms from cable's largest programme supplier, British Sky Broadcasting (a venture in which Pearson, owner of the Financial Times, has a significant stake), which is in turn likely to come to the market by the end of the year.

One analyst suggested yesterday that talk of TeleWest being worth 10 times operating cashflow sounded "a bit rich".

"I would like just a little more comfort that the management is flexible enough to cope with whatever competition arises," he said, *adding that TeleWest would* probably rank high in an emerging cable sector in London.

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Trevor Humphries
Alan Michels (left) with Stephen Davidson, finance director

Passenger increase fuels BAA advance

By Simon Davies in London

A 7 per cent increase in airline *passengers helped fuel a £28m* rise in pre-tax profits to £265m ($434m), at privatised airports group BAA during the six *months ended September.*

Its shares fell 24½p to 492½p, although the figures were in line with expectations, and BAA remained positive on the outlook for passenger growth and retail spending.

Capital expenditure was £201m as the group continued its three-year investment programme estimated at £1.4bn. Net debt rose to £790m (£739m), while gearing remained less than 30 per cent.

The company said the recent collapse of a tunnel at Heathrow – part of a £300m project to develop a *high-speed rail link* to central London – was unlikely to have a meaningful financial impact as the tunnel was four months ahead of schedule.

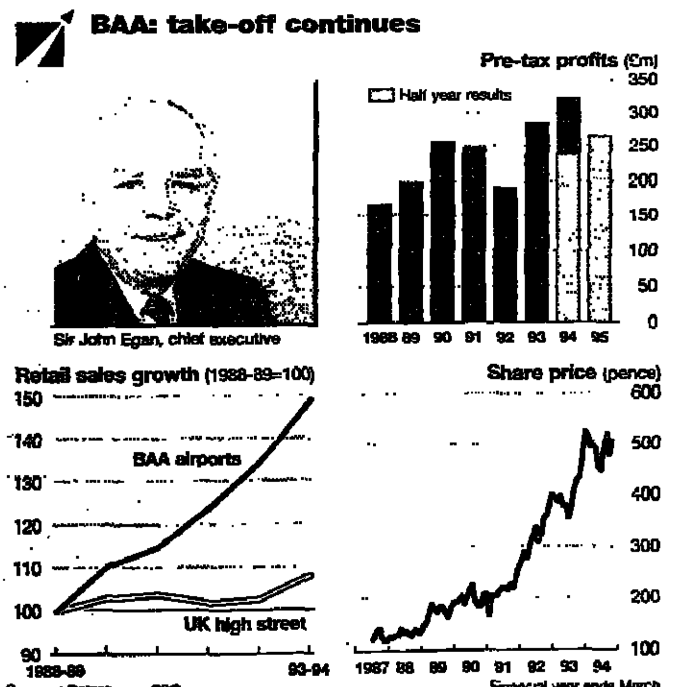
Group turnover rose 5.3 per cent to *£660m (£627m). Revenue* from traffic and airport charges increased by £15.1m to £278.4m. It was held back by its regulatory price *formula, which reduced* prices by 4 per cent below the Retail Price Index.

Retail revenue rose from £250.1m to £273.2m, with the average passenger spending 7.8 per *cent more than a year earlier.* Sales were hit by the effects of construction at Heathrow, but should recover strongly once the *disruption ceases.*

The company announced an interim dividend of 3.75p (3.375p), up 11 per cent while earnings per *share rose to* 19.2p (17.1p).

Lex, Page 18

BAA: take-off continues



Sir John Egan, chief executive

Sources: Datastream, CSO

INTERNATIONAL COMPANIES AND FINANCE

Danske to take control of Baltica

By Hilary Barnes in Copenhagen

Den Danske Bank, the leading Danish commercial bank, is to acquire a controlling interest in Baltica, Denmark's largest insurance company.

The deal will make Danske a significant force in the country's life assurance and personal accident insurance business.

Danske intends to sell off the parts of Baltica, including commercial and industrial insurance, which do not fit in with the bank's strategy, said Mr Knud Sorensen, Danske chief executive.

The move will cost Danske about DKr2.55bn ($426m), but no share issue is planned, added Mr Sorensen.

Danske, which already held 32.3 per cent of Baltica's shares, will obtain control through two agreements.

It has exercised an option to buy a 23 per cent stake in Baltica held by Gefion, formerly known as Baltica Holding, for DKr1.7bn. This takes the bank's holding to 55.5 per cent of the capital and 76.9 per cent of the voting rights.

The bank also entered an option agreement with Denmark's second-ranking insurance company, Codan, controlled by the UK's Sun Alliance, to acquire Codan's 10.4 per cent stake in Baltica for about DKr850m.

This would take Danske's holding in Baltica to 65.9 per cent of the capital and 91.2 per cent of the voting rights.

The agreements give Danske control of Baltica's life assurance company, Danica, which before it was sold to Baltica for DKr4bn in a privatisation sale in 1990 was known as Statsanstalten.

Danica has a 23 per cent share of the domestic life assurance market. Together with the bank's Danske Life, Danske will control up to 30 per cent of the Danish market.

Danica, however, is not permitted to pay a dividend for 35 years from the date of the privatisation sale. This follows a Supreme Court ruling in November last year which stated that Danica's profits were the property of privatisation policyholders.

The ruling has made it impossible for Danske to carry out a sale of the entire Baltica group. This was its plan when it gained effective control over Baltica in 1992-93 after it had put up the money to prevent Baltica Holding (as it was then called) from going bankrupt.

Baltica's share of the domestic personal accident insurance market is about 16 per cent, according to Mr Hans Ejvind Hansen, Baltica chief executive.

Danske owns a personal accident insurance company, Phoenix, jointly with Codan.

The bank will acquire the entire capital of Phoenix, which has only a small market share.

Générale des Eaux struggle deepens

By David Buchan in Paris

The struggle over the succession to Mr Guy Dejouany, president of Compagnie Générale des Eaux, intensified yesterday. Mr Jacques Calvet, the head of Peugeot who is a member of the Générale des Eaux board, reaffirmed his opposition to Mr Dejouany's plan to put a 37-year-old outsider at the top of the French communications and utility group.

It became evident that Mr Calvet has support from some of the group's 12 outside directors in his objection to the plan by Mr Dejouany, 73, to anoint Mr Jean-Marie Messier, the managing partner of Lazard Frères, the merchant bank, as his dauphin and eventual successor.

Mr Calvet held a long meeting with Mr Dejouany on the succession yesterday. Neither Générale des Eaux nor Peugeot would comment on the outcome. But Générale des Eaux said negotiations with Mr Messier were advanced and would be put to the full board this month.

Mr Calvet's spokeswoman at Peugeot reiterated her president's feeling that "a young man of 37 with no industrial experience could not, however brilliant, move directly to the top of a group such as Générale des Eaux with 200,000 employees, without first serving some kind of apprenticeship to learn the business".

Mr Messier was the official in charge of privatisation when Mr Edouard Balladur was finance minister in 1986-88, and he is considered by many as a Balladur man, as is Mr Ambroise Roux, vice-president on the Générale des Eaux board.

● The Cob, the French bourse watchdog, yesterday said it had fined Mr Jacques Fournier, a former board member of Lyonnaise des Eaux, the construction and utilities group, FFr40,000 ($7,512) for abuse of privileged information in trading the company's shares. Mr Fournier said he would appeal.

Swedish insurer posts SKr813m deficit at nine months

Heavy loss in US pushes Trygg-Hansa into the red

By Hugh Carnegy in Stockholm

Trygg-Hansa, the Swedish insurer, plunged to an operating loss of SKr813m ($110m) in the first nine months of the year from a SKr1.1bn operating profit in the same period last year. It was hit by heavy losses incurred by Home Holdings, the US insurer in which Trygg holds a 35.3 per cent stake.

A fall in premiums to SKr5.37bn from SKr5.95bn, mainly due to Trygg's withdrawal from reinsurance, and a rise in claims led to a loss of SKr125m in the group's core property and casualty insurance business, compared with a profit last time of SKr565m.

Trygg incurred a gross loss of SKr520m due to the sinking of the Baltic ferry Estonia, which sank with the loss of 900 lives in September, but after reinsurance the net loss was limited to SKr62m.

The operating result was dragged into the red by Trygg's SKr646m share in Home's operating losses, and a SKr735m share in losses on Home's bond portfolio.

Trygg said Home planned to strengthen its capital base by $250m by debt and/or equity issues. In addition, Trygg would convert loans to Home of $170m entirely or in part to shareholder's equity.

Trygg's so-called total result, which includes the full impact of the group's investment performance, also tumbled to a loss of SKr1.76bn from a profit of SKr2.03bn due to unrealised losses in the group's bond portfolio.

● Den norske Bank, Norway's largest commercial bank, announced that DnB Forsikring, the group's new insurance unit will be established with capital of NKr300m ($45m), writes Karen Fossli in Oslo.

DnB yesterday submitted an application to the finance ministry for a concession for the unit, which is scheduled to begin operations during the second half of next year.

USG wins court ruling on asbestos claim

USG, the US manufacturer of building materials which is fighting a large number of asbestos-related claims, has won a legal victory which could have implications for the liability of insurers in asbestos cases, writes Richard Waters in New York.

The decision, in the Illinois appeals court, upheld USG's contention that it should be able to claim against insurance policies on a property from the date that asbestos was first installed, not just from the date it was discovered.

This so-called "continuous trigger" test means the company can claim under insurance policies issued between the late 1940s and 1984.

If applied to all outstanding property damage claims against the company over asbestos, the decision could make available up to $600m of insurance cover, USG said.

The 11 insurers affected directly by the verdict could not be contacted immediately for comment on whether they planned to take the case to the Illinois supreme court.

While numerous asbestos-related property damage cases in the US are working their way through the courts, personal injury claims arising from asbestos were all covered by a global settlement reached earlier this year.

Siemens in multimedia alliance

By Alan Cane

Siemens, the German electrical and electronics manufacturer, has formed an alliance with Scientific Atlanta and Sun Microsystems, both of the US, to develop and market systems for the emerging multimedia market.

The plan is to develop a design, or architecture, for multimedia networks which will be accepted as the industry standard.

The alliance intends to market the system to cable operators and telephone companies, initially in the US.

Multimedia has become an important focus for electronics groups over the past year. It implies the delivery of information to the home or office in digital form over fibre-optic cable or telephone lines and in interactive fashion.

Customers will be able to send messages and commands to the system making possible, for example, home shopping, home banking and video-on-demand.

The Siemens alliance is one of a number of groups developing multimedia architectures in the hope of establishing its version as the industry standard.

Among those involved in separate multimedia trials are American Telephone & Telegraph, British Telecommunications and Microsoft, the world's largest computer software house.

Siemens is an expert in telecommunications switching and has developed the basic multimedia software, IMMXpress.

Scientific Atlanta has experience of cable television systems while Sun Microsystems, a workstation manufacturer, is an expert in open, or industry standard, operating software and is heavily involved in the worldwide Internet computer network.

Scientific Atlanta has developed the "set-top boxes" – controllers which receive and translate the digital signals – for a multimedia trial planned by Time Warner to take place in Orlando, Florida, this year.

Bid battle hits Ambroveneto shares

By Andrew Hill in Rome

Shares in Banco Ambrosiano Veneto (Ambroveneto) fell sharply yesterday following the Italian bank's announcement at the weekend that its largest shareholders would block a proposed bid from Banca Commerciale Italiana.

Ambroveneto shares slipped to L4,558 – down L674 on the day – compared with the L7,000 price which BCI said it planned to offer when it announced its intentions less than a week ago.

BCI has yet to comment on the latest developments and is unlikely to do so before its self-imposed November 15 deadline for launching a formal offer.

However, Mr Giovanni Bazoli, Ambroveneto's chairman, all but declared victory on Saturday, when he confirmed that the bank's biggest shareholders had agreed to renew and reinforce their shareholder pact.

Crédit Agricole of France and Crediop, the investment finance subsidiary of the Italian banking group San Paolo di Torino – each of which owns 15 per cent of Ambroveneto – are poised to buy the 13.52 per cent stake offered by a group of small banks from the Veneto region.

Together with other pact members, the deal will secure at least 57 per cent of Ambroveneto.

BCI hoped to buy the stake itself, as the basis for its own bid, and CA and Crediop are thought to have matched BCI's offer.

BCI announced its approach to Ambroveneto only a week after its rival, Credito Italiano, unveiled plans for a L2,000bn ($1.3bn) bid to gain control of Bologna-based Credito Romagnolo.

Viag to focus on core business

By Christopher Parkes in Frankfurt

Viag, the German conglomerate with interests ranging from energy to drink cans, is to shift to a period of consolidation under a new chairman, according to Mr Jochen Holzer, supervisory board chief.

Mr Alfred Pfeiffer is to step down next August, two years before the end of his contract, and hand control to Mr Georg Obermaier, finance director, the company said yesterday.

Embellishing the announcement with bullish forecasts of a marked increase in profits this year and a continuation of the trend in 1995, Mr Pfeiffer said his previous forecasts of a 35 per cent rise in operating earnings this year would be exceeded by a wide margin.

According to Mr Holzer, the boardroom change was based exclusively on Mr Pfeiffer's personal decision to step down. He would join the supervisory board and continue to be represented on other important group bodies.

A replacement finance director has yet to be found.

Main elements in the group's new policy would be strong internal growth and a focus on core businesses, such as energy, chemicals, packaging and logistics. Supplementary businesses – including telecommunications, which might be built up to a mainstream operation – would be open for possible partnerships, Mr Holzer said.

Disposals to tidy the group's portfolio could not be ruled out, although there were no concrete plans, he added.

The consolidation follows a long period of acquisitions which ended in March this year in a complex deal under which Viag took over Bayernwerk, the Bavarian state energy utility, and moved its headquarters from Düsseldorf to Munich.

Ina chief denies Treasury influence

By Andrew Hill

The new chairman of Ina, the recently privatised Italian insurer, yesterday dismissed claims by his predecessor that the company was still under the influence of the Treasury, its majority shareholder.

Mr Sergio Siglienti, the new chairman, said there were no government representatives on the new 13-man board, elected yesterday, which showed the company was ready for the second phase of privatisation, due to take place next year.

Mr Lorenzo Pallesi, the outgoing chairman, claimed the Treasury, which has a 52.75 per cent stake in Ina, "still determined the attitudes and choices" of the company. Mr Pallesi's name was omitted from the Treasury's list of 10 nominees to the board.

Yesterday's shareholder meeting was the first in Italy to use a new voting system, which reserves three boardroom seats for directors nominated by minority shareholders. But small investors claimed the new system had not lived up to expectations of shareholder democracy.

The seats were filled by nominees of Imigest, a fund manager with a 0.5 per cent stake in Ina. They are Mr Giampietro Nattino, deputy chairman of the Italian association of securities houses, Mr Jean Claude Damerval, managing director of Axa of France, and Mr Anthony Louis Brend, former chief executive of Commercial Union.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In 1893, CIGNA retained Citibank—and never looked back. As CIGNA has expanded around the world, it has relied on Citibank's innovative solutions and unrivaled global expertise. Citibank and CIGNA: a century of financial partnership.
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INTERNATIONAL COMPANIES AND FINANCE

Brierley lifts NZ media stake to 29%, ends offer

By Terry Hall in Wellington and AP-DJ

Brierley Investments, the New Zealand hotels and investments group, yesterday said it had acquired a 29 per cent stake in Wilson & Horton and was therefore withdrawing its offer to buy shares in the publishing company.

The Horton family, meanwhile, which until last Friday was the controlling shareholder in New Zealand's biggest newspaper, said it was "shell-shocked" by Brierley's raid, in which it bought shares at NZ$9.50 each.

The Horton and Wilson families have controlled the publisher since 1863. The company owns the country's biggest daily, the Auckland-based New Zealand Herald, provincial and weekly papers, magazines and a printing business.

In a lightning raid on Thursday Brierley gained 20 per cent from institutions, then bought a further 5 per cent, before offering the same terms to smaller investors. It completed its purchases yesterday.

Mr Michael Horton, the publisher's managing director, had advised shareholders not to sell, as he was "quite frankly appalled" by the Brierley move. He said that a previous move by Brierley into the media business had been a blow to the industry, reducing the number of large New Zealand publishing groups from three to two.

Brierley controlled New Zealand Newspapers during the 1980s, but had been forced to break it up following the 1987 market crash.

Mr Horton's son Matthew, a journalist in Australia who has been acting as family spokesman, said Brierley was seeking two board seats.

Wilson & Horton shares closed unchanged yesterday at NZ$9.50, while Brierley slipped 1 cent, to NZ$1.27.

SA glass group rises 16% at six months

By Mark Suzman in Johannesburg

Plate Glass and Shatterprufe Industries has reported a rise in after-tax income to R114.9m ($32.66m) for the six months to September, a 16 per cent rise on last year's earnings of R99.2m for the same period.

Turnover at the South African company, owned by SA Breweries, rose 17 per cent to R1.82bn from R1.58bn, but operating profit rose only 8 per cent to R185.8m from R172.5m.

Net financing costs dropped to R10.7m from R14.9m reflecting lower borrowings, which stood at R295.1m compared with R303m a year ago. However, this was up on the year-end figure of R218.5m, largely as a result of higher short-term borrowings to meet seasonal capital needs.

The company's best performing division was international arm Belron, which continued to show good results in Europe and saw particularly rapid growth in Australia and the US. Central African operations also performed creditably, and the company is currently expanding its Zimbabwean operations through a Z$130m rights issue.

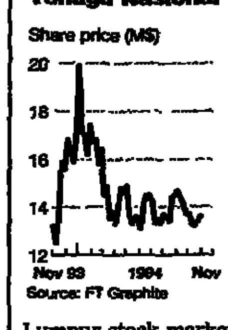
However, domestic sales were less robust as Glass South Africa was hurt by the motor industry strike, which stopped sales to original equipment manufacturers.

PG Bison, which makes boards and laminates for the furniture industry, also had a weak first quarter, but since then the group reports that sales have been excellent.

PGSI has also said that PG Bison will embark on R600m plant expansion to increase capacity ahead of anticipated demand from the furniture market and building industry.

NEWS DIGEST

Growth in demand fuels Malaysian utility advance



Tenaga Nasional, Malaysia's partially-privatised electricity utility, has announced pre-tax profits for the year ending August 31 1994 of M$1.98bn (US$772m), a 7 per cent rise on the previous year's figure, writes Kieran Cooke in Kuala Lumpur. About 25 per cent of Tenaga Nasional was floated in 1990 and the group now ranks as the biggest company on the Kuala Lumpur stock market. Group turnover for the year rose 12 per cent to M$5.63bn.

Tenaga said the main reason for the rise in earnings had been the continuing strong growth in electricity demand. Malaysia's economy is forecast to expand by 8.5 per cent this year, the seventh consecutive year in which growth has exceeded 8 per cent.

Electricity sales rose by 14 per cent in the year to August and are forecast to grow by 12.7 per cent in 1995.

A final dividend of Malaysian 7 cents was approved, making 12 cents for the year.

As part of a long term plan to increase Malaysia's power output, the government has so far granted licences to five independent power producers (IPPs) on a build, operate, transfer basis. The IPPs are expected to account for about 40 per cent of total power generation by 1998.

Highlands Gold buys out venture member

Highlands Gold, the Papua New Guinea-based mining company which is controlled by MIM Group of the UK, is buying out the 5.81 per cent interest in the Frieda River copper-gold joint venture held by Norddeutsche Affinerie for 400,000 kina ($351,648), writes Nikki Tait in Sydney. The sale, which takes effect in April and is subject to government approval, will take Highlands' stake in the project to almost 72 per cent. The Japanese OMRD consortium owns the remainder.

News of the deal comes just days after Mr Norm Fussell, Highlands chairman, said that the group was increasingly confident that a mine could be developed at Nena within four years, and announced that exploration expenditure was being stepped up.

Strong advance for Indonesian tyre makers

Gadjah Tunggal and its subsidiary Andayani Megah, two large Indonesian tyre and tyre cord manufacturers, said their unaudited net income in the nine months ending September 30 rose by 93 per cent and 45 per cent respectively, writes Manuela Saragosa in Jakarta.

Gadjah Tunggal's earnings for the period climbed to Rp66bn ($30.38m) from Rp34bn a year ago. Andayani Megah's net income totalled Rp24bn, up from Rp16.5bn a year ago.

Both companies reported their revenues rose by about 28 per cent. Indonesia's tyre industry is protected by high tariffs.

Mexican subsidiary for Société Générale

Société Générale said it had received approval to set up a Mexican subsidiary, which will be called Société Générale SA and open in the first half of next year, Reuter reports from Paris. The French bank has had a representative office there since 1963.

The Mexican unit will have capital of $50m and will be 100 per cent owned by the French parent. It will offer domestic lending, export financing, market operations, and advisory and financial engineering services.

The subsidiary will be headed by Mr Jean Ponsard, who was a senior executive in Spain.

Seita posts profits of FFr254m midway

Seita, the French state-owned tobacco group which is due to be privatised, recorded a 1994 net first-half profit of FFr254m ($48.56m) on turnover which rose 6.5 per cent to FFr7.5bn, the company said, Reuter reports from Paris.

It added that it expected net profit for the full year to exceed 1993's FFr585m.

The company described the first-half result as "promising".

Seita added that first-half sales could not be compared with those of 1993 because it was the first time it had given six-month consolidated figures. But it estimates that sales growth for the year will be higher than 6.5 per cent.

Operating profit for the first half of 1994 totalled FFr467.7m which amounted to 87 per cent of the operating profit for all of 1993.

Reliance Industries to merge associates

India's biggest private sector company, Reliance Industries, said yesterday that it intended to merge two of its associates, Reliance Polypropylene and Reliance Polyethylene, with itself, writes Shiraz Sidhva in New Delhi.

Board members of the three companies are due to meet today to consider the proposal. Reliance said the move was intended to protect shareholders of the associate companies – both single-product manufacturers – from the vagaries of their specialist markets.

Australian engineer up

Australian National Industries, the engineering group which owns the UK's Aurora group, said yesterday that it had made a first-quarter profit after tax of A$14.4m (US$10.77m), up from A$12.6m in the same period of the previous year, writes Nikki Tait. Sales in the three months to end-September were A$396.3m, compared with A$344.1m.

Acquisitions boost Email's first half

By Nikki Tait in Sydney

Email, the Australian white goods and building products company, yesterday announced a 35.8 per cent increase in interim profits, for the six months to end-September, to A$45.5m (US$34m).

The advance was scored on sales up by 26.2 per cent at A$1.05bn.

Email said that the figures had benefited from an additional three months of trading for the Dorf, Lockwood, Whitco and formed metal businesses which it acquired in July 1993, and six months trading under full ownership of Email Westinghouse.

However, at the earnings per share level, the increase was only slightly smaller, with the fully-diluted figure rising to 17.4 cents from 13.1 cents.

All four main operating groups posted higher profits and sales, although the large appliance division bore non-recurring costs of around A$7m related to the launch of new products and the rationalisation of refrigeration manufacturing operations.

The company also issued a bullish forecast for the second half. It said that demand in all areas was up on the previous year, and it was "confident of exceeding the 1993-94 very strong second half result, based on the expectation that the present market conditions continue".

China Light ahead 18% at HK$4.2bn

By Louise Lucas in Hong Kong

China Light and Power, the monopoly supplier of electricity to Kowloon and the New Territories of Hong Kong,yesterday reported an 18.4 per cent rise in net profits to HK$4.2bn ($543m) for theyear to September 30 from HK$3.5bn the previous year, broadly in line with market expectations.

However, operating profit slumped 24 per cent to HK$3.1bn from HK$4.1bn. The group saw HK$586m from non-mainstream operations, of which at least HK$186m accrued from property sales.

Taken on a per share basis, earnings rose at the same rate to HK$2.11 from HK$1.78. The directors are recommending a dividend payment of 37 cents, up from 35 cents in the previous year.

Turnover rose 4.5 per cent to HK$15.4bn. Sales to Hong Kong have been hit by the relocation of manufacturing companies across the border in China. The manufacturing sector accounted for 20 per cent of CLP's revenues in 1993, down from around 35 per cent in the 1980s, and analysts expect the contribution to diminish further.

Next year, in the absence of unforeseen circumstances, CLP plans to pay out three interim dividends of 30 cents a share each, with the final pay-out depending on the year's results.

Correction

Telecom Italia

In the FT survey on Italian Industry and Technology, published on October 25, the article on the telecoms sector stated that 60 per cent of Telecom Italia's investment was financed by debt, and 40 per cent from internal resources. The company points out that those figures refer to the coverage of capital invested as at December 31 1993, before the merger of state-owned telecoms companies, and not to annual investment, which is financed entirely from internal resources. In 1994, Telecom Italia expects capital expenditure to be more than covered by cash-flow.

The annual turnover of the company in the 1993 pro forma profit and loss account was approximately L27,000bn ($17.27bn) and not L2,700bn, as incorrectly reported.

Record oil results boost CanPac in third quarter

By Robert Gibbens in Montreal

Canadian Pacific, the transport, resource, hotels and property group, registered a third-quarter profit due to record results from its oil and gas subsidiary.

Group net profit was C$87.6m (US$64.5m), or 25 cents a share, against a loss of C$15.1m, or 5 cents, a year earlier. Revenues were flat at C$1.78bn against C$1.6bn.

Operating income was C$279m, up 14 per cent. PanCanadian Petroleum contributed C$129m, a jump of 84 per cent. Rail operations were hit by a long strike at the Soo Line unit in the US, which was suspended at the end of August, though Canadian traffic was higher. CP Rail contributed C$5.5m, down from C$26.5m.

Shipping, coalmining and hotels all increased their contributions.

Nine months' net profit jumped to C$306.9m from C$105.8m, on revenues of C$5.2bn against C$4.6bn.

In the nine months, shipping expanded container operations and improved its rates, while operating costs declined. Property was helped by higher office occupancies, with a stronger tourist season and the lower Canadian dollar contributing to the hotels division.

Laidlaw, the waste management group in which Canadian Pacific has an 18.8 per cent stake, contributed C$6.6m against a loss of C$87m.

However, losses increased to C$88.7m from C$53m at Unitel, the telecommunications unit.

Mr William Stinson, chairman, said CP's fourth-quarter results should continue the improvement.

C&W wins telecoms services deal in US

By Andrew Adonis

Cable & Wireless, the UK telecoms group, has been selected by an alliance of small US wireless operators to provide long-distance telecoms services to knit together their proposed networks.

C&W's US subsidiary is already an established long-distance US operator, and the contract does not require heavy investment.

However, C&W said that if the wireless operators – all small and medium-sized concerns – succeeded in gaining licences for new "personal communications services" (PCS) networks, the resulting business could be worth "several hundred millions of dollars a year" to C&W within five years.

The PCS licences are due to be auctioned next year by the Federal Communications Commission, the US regulatory authority. The FCC has reserved a proportion of the licences for smaller operators.

AT&T, the US operator and equipment supplier, will supply network equipment for the alliance.

C&W's US subsidiary had a turnover of $560m last year.

AlliedSignal back on a growth tack

Chairman Larry Bossidy has set precise targets, writes Tony Jackson

One might have guessed that Mr Larry Bossidy, chairman and chief executive of the diversified US manufacturer AlliedSignal, is an ex-General Electric man. The gospel of GE is ever-increasing productivity: Mr Bossidy has a productivity target of 6 per cent a year stretching into infinity. So far at least, he looks on target.

When Mr Bossidy arrived at AlliedSignal in 1991, his first task was to confront a business which, in some parts, was shrinking alarmingly. A large part of the company is in aerospace, and a large part of that business is in defence. In this year's third quarter, however, the aerospace division increased its sales for the first time in more than three years. For Mr Bossidy, this is an important symbol of a return to growth for the company overall.

Granted, the growth was tiny – under 1 per cent – and was wholly due to acquisitions. Granted, too, Mr Bossidy expects the military side – about 28 per cent of the division's sales – to continue shrinking. Civil aerospace, too, is a tough business these days: but here at least, he is confident that things can only get better.

"Worldwide deliveries of aircraft look like being down 26 per cent this year. Next year we expect them to be down around 5 per cent. They should start to recover in 1996, though not dramatically. Flying hours and take-offs and landings are still growing at around 3 per cent a year, so you know the business is going to come back. The question is when."

The projections sound curiously precise, but Mr Bossidy is a precise man. When he took over in 1991, he set himself financial targets for 1994: an improvement in operating margins from 5 per cent to 9 per cent, and a return of equity of 18 per cent against 10.5 per cent. Nine months into the year, margins are running at 9.2 per cent, while return on capital is about 20 per cent.

In response to this, he is raising the targets. Margins next year will be 10 per cent, he says, and 12 per cent by 1997. Similarly, productivity – which he defines as sales without price increases divided by costs without inflation – will carry on rising by 6 per cent (this year so far it has gone up 5.9 per cent). "It's an infinite target," he says. "You just have to keep re-inventing ways of getting it."

He expects sales this year to be up 8 per cent in real terms, having been flat from his arrival until last year. Here, too, he has raised the bar. "I said last year we would try to sustain revenue growth of 8 per cent, with 4 per cent generated internally and the rest from acquisitions. We now think we can do 5-6 per cent internally, so we'll do 8 per cent plus for the next three years."

This year's third quarter, he says, was particularly reassuring, with sales up a nominal 11 per cent – the first double-digit increase in 6½ years. "So with costs in good shape, and with volume continuing to grow, we ought to see a period of nice income growth."

The obvious question arises of how far this recovery is cyclical and thus unsustainable. Everything is cyclical, he says; but in the company's largest single division, which makes car and truck components, he argues for greater stability. The US auto industry is greatly helped by the weakness of the dollar, but US auto manufacturers are also running their businesses better than they used to. As for the cycle, he says, "as US autos weaken, Europe should strengthen, and we're roughly equal in both".

One reason for the company's strength in Europe is an active acquisition programme. This is an important part of Mr Bossidy's strategy; since his arrival AlliedSignal has made 11 acquisitions, which next year will contribute sales of $1bn – perhaps 7 per cent of the total.

In addition to acquisitions, he points to two more sources of future growth: new products, such as innovative forms of radar, and globalisation, above all in China, India and Mexico. Provided that strategy works, he is happy to stick to the existing businesses of aerospace, automotive and materials. "If we can get the growth I think we can in those three sectors, we'll stay there. Failing that, we'd consider a fourth area. That's a low priority right now."

Larry Bossidy: 'We ought to see a period of nice income growth'

May Stores earnings up 4.5%

By Richard Tomkins in New York

May Department Stores, the biggest US department store group, yesterday opened the quarterly results season for US retailers by reporting a modest 4.5 per cent increase in after-tax profits for the three months to October.

Net income rose from $133m to $139m, but May said the latest figure would have been $145m had it not been for its share of the cost of settling a lawsuit filed against the company and its investment bank by certain bondholders in 1992.

Fully-diluted earnings per share, including the litigation charge, rose from 49 cents to 51 cents.

May operates 309 department stores and 4,062 Payless ShoeSource stores in the US.

Revenues at stores open for more than a year rose by 4.4 per cent in the department store group but fell by 2.6 per cent in the Payless ShoeSource group.

This sluggishness in store-for-store sales growth was offset by May's aggressive store-opening programme.

During the quarter the group opened 10 new department stores, making a total of 11 in the year-to-date, and also ended the quarter with 193 more Payless ShoeSource stores, for a total of 283 year-to-date.

As a result, total department store revenues rose by 7 per cent to $2.33bn and Payless ShoeSource revenues rose by 4 per cent to $540m, producing an overall 6 per cent increase in revenues to $2.87bn.

Mexican group to buy Upjohn's seeds unit

By Damian Fraser in Mexico City

Empresas La Moderna (ELM), a Mexican tobacco and agriculture business, has agreed to buy the Asgrow Seed Company, a subsidiary of Upjohn, the US healthcare and chemicals business, for $300m.

The deal is expected to be concluded at end-December, subject to regulatory approval.

Asgrow is one of the world's five leading agricultural seed companies, with revenues last year of about $300m, of which about half came from the US and the remainder from Europe, Asia and Latin America. It researches, develops and markets 1,000 varieties and 31 species of seeds for the processor and fresh market produce business.

ELM's acquisition is part of a strategy to diversify from its core tobacco business into agriculture. Last year it took 51 per cent of Agricola Batiz, an exporter of fruits and vegetables to the US.

Mr Alfonso Romo, chairman of ELM, said that the transaction "fits perfectly with our vision to establish a strong agriculture and biotechnology business".

He said the combination of ELM's marketing skills and Asgrow's research and development abilities would give ELM a unique position in a market in which Asian and Latin American countries would become increasingly important.

Mr Ley Smith, chief executive of Upjohn, said "because of changes in our industry, Upjohn needs to focus on its core pharmaceutical business".

Asgrow's purchase price represents about 10 per cent of ELM's stock market capitalisation, and its annual sales about 20 per cent of ELM's total. ELM is an affiliate of Grupo Pulsar, a conglomerate controlled by Mr Romo.

Founders of Southern Peru Copper plan IPO

By Kenneth Gooding, Mining Correspondent

Two of the US founders of Southern Peru Copper Corporation (SPCC), one of the world's biggest integrated copper producers, are to sell their shares through an international public offering, taking advantage of high metal prices and interest in emerging markets.

Some 28 per cent of SPCC will be on offer and the company will apply for a listing on the New York Stock Exchange.

Non-voting, employee shares in SPCC are quoted on the Lima exchange and at present give the group a market value of about US$1.3bn.

Selling their SPCC shares are Cerro Trading, a Marmon Group subsidiary, which owns 20.7 per cent, and Newmont Gold, with 10.7 per cent.

SPCC has no plans to offer any shares and will receive no proceeds from the offering, through US and international syndicates led by CS First Boston and S.G. Warburg.

The other founding shareholders in SPCC are US copper producers Asarco, with 52.3 per cent, and Phelps Dodge, which has 16.3 per cent.

SPCC operates two mines and a smelter in the south of Peru. Last year it produced 307,000 short tons of copper, 3.3m troy ounces of silver and 6.3m lbs of molybdenum.

The company is three years into a five-year, $300m investment programme aimed at increased output and correcting environmental problems. In June it acquired the nearby Ilo copper refinery, sold as part of Peru's privatisation programme, for $68.9m.

● A consortium comprising Cominco, the Canadian metals producer, and Japan's Marubeni has won a bidding contest for the Cajamarquilla zinc refinery on the outskirts of Lima, Peru, writes Bernard Simon in Toronto.

Cominco, which will have an 83 per cent stake in the refinery, said that the purchase price is about US$108m, part of which will be paid in instalments over 14 years.

About a dozen other groups expressed interest.

Cajamarquilla has an annual capacity of about 100,000 tonnes. Cominco has indicated that it plans to expand the capacity to 140,000 tonnes, which is about half the size of its flagship complex at Trail, British Columbia.

In addition to an improving political and economic climate, Cominco said that it was attracted by Peru's active mining industry and "strong" geological potential.

Engelhard in joint venture with CLAL of France

By Kenneth Gooding

Engelhard Corporation, the New York-listed company which is 30 per cent-owned by Minorco, the overseas arm of the Anglo American-De Beers group of South Africa, has signed a letter of intent to put most of its precious metals fabricating operations into a joint venture with CLAL of France.

CLAL, quoted in Paris, is part of Mr Marc Ladreit de Lacharriere's Fimalac financial-industrial group.

The 50-50 joint venture, to be based in France, would have annual revenues of about US$1bn, derived equally from the partners, and employ 2,600, about 1,750 from CLAL. It would combine Engelhard's strengths in platinum group metal fabricated products with those of CLAL in gold and silver products.

CLAL claims market leadership in France, Spain, Scandinavia and the Netherlands while Engelhard has a strong position in the UK, Italy, the US and east Asia.

Although there is almost no overlap between the two, there is scope for rationalisation, Engelhard said.

The deal is not expected to be completed for some months.

INTERNATIONAL COMPANIES AND FINANCE

Minolta returns to black on sales increase

By Michiyo Nakamoto in Tokyo

Cost-cutting measures and increased sales helped Minolta, the Japanese maker of cameras and office machinery, return to the black in the first half of the year.

Non-consolidated recurring profits – before extraordinary items and tax – were Y542m ($5.5m), a turnround from the Y1.1bn loss a year ago. Net profit was Y386m, compared with a net loss of Y1.5bn previously.

The improvement came on the back of a 4 per cent rise in sales to Y92.7bn, from Y89.2bn, which was achieved in spite of sluggish capital spending in Japan and the yen's sharp appreciation against the dollar.

However, Minolta was unable to make a profit at the operating level, although it trimmed operating losses to Y1bn from a previous Y2.3bn. The company passed its interim dividend and does not expect to pay a dividend at the year-end.

Minolta said that cost-cutting measures, such as the increased standardisation of parts and greater overseas procurement, had helped it improve results in the first half.

The company, which exports 75 per cent of its products, expects to increase procurement of parts from lower cost overseas markets to 12 per cent in value terms in the current year, compared with 4 per cent last year.

In its office machinery division, the inclusion of sales of assets related to its planetarium business, which has been sold to a subsidiary, helped boost revenues by 6 per cent.

Minolta expects sales of its new models to gather pace in the second half, particularly in the US where demand has been strong. As a result, the company has revised upwards its full-year sales forecast to Y191bn compared with an earlier prediction of Y189bn, although its forecasts for recurring profits and net profits are unchanged at Y1bn and Y600m, respectively.

Investors offered a slice of HK film empire

By Simon Holberton in Hong Kong

Mr Raymond Chow, one of the founders of the Hong Kong film industry, will take part of his movie empire public this week when he offers 125m shares in Golden Harvest *Entertainment (Holdings).*

The stock is priced at HK$1.93 a share, which gives a prospective price/earnings ratio of 10.39 times, on a fully diluted basis. The issue will raise HK$241.25m (US$31.3m) gross and HK$225m after expenses. The issue is managed by Wardley Corporate Finance and PruAsia DBS.

In the year to the end of June the company had profits after tax of HK$69.2m, on turnover of HK$361.7m. Directors forecast profits of at least *HK$90m in the current year.*

Golden Harvest Entertainment will own Mr Chow's cinemas, distribution businesses and film processing business. His film production business, his biggest asset, has been kept private.

The company is one of the main distributors of Chinese- and English-language films in Hong Kong, with a 27 per cent and 38 per cent market share, respectively. The company is also an important distributor of films in Singapore and Malaysia, *and in Thailand it* operates two multiplex cinemas.

The company said HK$70m of the capital raised would be used to repay bank debt. The remainder would be used to expand its cinemas in Hong Kong and south-east Asia.

UAC Nigeria begins a new chapter

Unilever is severing all ties with the company, writes **Paul Adams**

Nigeria's private sector and UAC, its flagship *company*, have reached a watershed with the decision by Unilever, the Anglo-Dutch consumer products group, to end its 70-year involvement in the company, a relationship which came to symbolise stable, long-term investment in Nigeria

The offer to buy Unilever's remaining shares in UAC *Nigeria is likely to be fully sub*scribed by local investors when it closes later this month, brokers in Lagos believe.

Nigerians are apparently eager to invest in the company, the country's largest manufacturing, packaging and distribu*tion conglomerate with the* most prized property portfolio in Lagos, in spite of its chequered history and the uncertainties of life without Unilever.

UAC Nigeria's origins predate the formation of the country. *Its forebear*, the Royal Niger Company, was the region's trading pioneer in the *late 19th century. It carved out* a near monopoly of trading palm oil and other local raw materials in exchange for European goods. As the opera*tion grew, Lord Leverhulme*, the founder of the British side of Unilever, was so keen to acquire it that he paid cash for the company without seeing any accounts.

The business became the largest part of Unilever's *United Africa Company, and* after independence in 1960 UAC Nigeria dominated the private sector and retained powerful influence in government circles. Through one civil war, more than half a dozen military coups, and the boom-and-bust cycles of the dominant oil industry, UAC Nigeria *has epitomised stability and* sound investment.

This year's disinvestment also closes a long chapter in Unilever's history. At its peak in 1975, UAC International, the parent of UAC Nigeria and a mixture of other businesses extending from Africa to the UK, contributed about one-third of Unilever's group prof*its. That has shrunk to about* 0.5 per cent as Unilever has focused on its core consumer products.

Of UAC Nigeria's 11 divisions, only toiletries fits the *current Unilever profile*. Unilever is transfering that and the proceeds from the share sale to *Unilever Nigeria, its* new 100 per cent owned holding company. In addition, UAC Nigeria's Caterpillar distributor will become a joint venture with Unilever called Tractor and Equipment.

Unilever and Mr Bassey Ndiokho, UAC's chairman, stress that the divestment decision was mutually agreed and conceived before trading conditions became more *difficult last year.*

Mr Ndiokho admits, however, that excessive bureaucracy and the government's foreign exchange controls have made it difficult for legitimate businesses to import necessary materials and equipment and to export profitably.

The effects of the military regime's fiscal indiscipline and the political instability of the *past 12 months* have been felt throughout the economy. In 1993 at least six working weeks were lost to political disturbances, while inflation approaching 100 per cent a year and a sharp devaluation of the naira eroded domestic *demand and put pressure on* profits.

After-tax profits last year were N432.3m ($19.65m), an increase in naira terms of 29 per cent from 1992 but below the rates of inflation and devaluation.

The situation is worsening. This year's first-half profits were 17 per cent below forecast, although higher than a year earlier, and the second *half began* badly with the political strikes which brought the economy near to a standstill in *July and August. The naira* has been devalued on the parallel market by 40 per cent in the last six weeks.

Nevertheless, demand among Nigerian investors for the UAC offer is high. The two issuing houses in Lagos, First City *Merchant Bank and Invest*ment Banking Trust Company, have placed all the shares with sub-underwriters who expect to have sold nearly all the stock when the offer closes.

Mr Ndiokho, who took over as UAC chairman last year *when Mr Ernest Shonekan* became head of the interim national government, is confident that the Nigerian directors can recapitalise, expand and run the business successfully after Unilever divests.

Initially, most investments will be in property development but in the long term UAC wants to attract foreign technical expertise in timber, textiles and packaging. The company is also looking at expansion in seed production, wood exports and the oil services industry.

The International Finance Corporation, part of the World Bank, is to produce a strategic study and recommend international partners in new ventures.

Unilever says it will maintain its commitment to Nigeria through its new holding company and a 40 per cent stake in Lever Brothers Nigeria, which makes detergents, margarines and personal products.

UAC's chairman is confident that the Nigerian directors can expand and run the business successfully after Unilever divests

The roots of the disinvestment are two fold – political and corporate – and stretch back two decades. Under pressure from the Lagos government to keep UAC Nigeria in Nigerian hands, Unilever had cut its stake to 40 per cent in *the 1970s with the rest held by* Nigerian private and institutional investors.

About three years ago, UAC Nigeria's management *suggested to Unilever that they* should go their separate ways. Finally, last December, Unilever agreed to sever all links by transferring some assets from UAC Nigeria to a new local Unilever holding company, and to sell its remaining *20 per cent in the company*, valued at around $46m at the official exchange rate.

Unilever also decided in the 1980s to concentrate worldwide on four businesses: personal products, food and drink, detergents and specialty chemicals.

INTERNATIONAL CAPITAL MARKETS

Treasuries lower ahead of quarterly refunding

By Patrick Harverson in New York and Conner Middelmann in London

US Treasury prices slipped lower across the maturity range in light trading yesterday morning as Friday's bearish jobs report continued to unsettle market sentiment.

By midday, the benchmark 30-year government bond was down ⅜ at 92¾, yielding 8.162 per cent. The short end was also slightly weaker, with the two-year note off 1/16 at 99 21/32, yielding 7.046 per cent.

Trading opened in lacklustre fashion, with many participants choosing to sit on the sidelines ahead of today's first leg of the Treasury's quarterly refunding round and Thursday's inflation data.

The mood of the market remained sombre, however, as dealers and investors continued to mull over Friday's October employment report.

The report, although seemingly positive at first when the growth in non-farm payrolls came in lower than expected, subsequently proved bearish for bonds because the data included some warning signs on inflation that analysts said only increased the likelihood that the Federal Reserve would raise interest rates at the next meeting of its open market committee on November 15.

The expectations of another policy tightening, which pushed long yields to new 3½-year highs last week, depressed prices further yesterday, and the market was not helped by the impending arrival of new supply.

The Treasury will sell $17bn in three-year notes today, followed by further sales later in the week, and the market yesterday was concerned that the auctions might not meet with much demand.

■ European government bond markets were once again depressed by weaker US Treasuries, leaving prices to drift lower in sluggish dealings.

GOVERNMENT BONDS

The spectre of fresh supply further weighed on several markets as traders wondered where new bonds would be placed in the absence of investor demand.

The biggest supply burden comes in the US, where the Treasury is due to auction $29bn of three and 10-year notes in the next two days.

Germany is set to sell an estimated DM10bn of 10-year bonds today and tomorrow; Japan is expected to auction around Y300bn of 20-year bonds today; France is due to issue five and 10-year Ecu bonds tomorrow; the Dutch finance ministry plans to tap the 30-year sector on Thursday; and the Bank of England last Friday announced the sale of two £250m tranches of conventional gilts and two £100m tranches of index-linked stock.

"Placing supply in these markets is not easy, and it's one factor keeping them subdued," said Mr Graham McDevitt, bond strategist at Paribas Capital Markets.

■ UK gilts slipped by about ½ point, depressed by weakness in other markets and continued uncertainty on the UK interest rate horizon.

Interest-rate jitters were revived by the latest UK industrial production numbers, showing a bigger than forecast 1.1 per cent rise in September.

While the market did not react sharply to the data, they did fuel talk that the Bank of England may tighten monetary policy sooner than expected.

The December long gilt future fell by 17/32 to 100 22/32.

■ German bunds lost their intra-day gains to end the session about ¼ point lower, pressured by weaker US Treasuries and some futures sales ahead of today's 10-year bund auction.

The December bund future on Liffe fell by 0.33 to 89.07.

■ In Sweden, yields jumped again on renewed worries that Sunday's referendum on European Union membership may result in a "no" vote after a poll showed 42 per cent of voters opposing membership, 40 per cent favouring it and 17 per cent undecided.

The 11-year benchmark bond yield rose 22 basis points to 11.67 per cent - off its intra-day peak of 11.80 per cent - and the 10-year spread over bunds widened to around 401 basis points from 363 basis points on Friday.

In this environment, the auction of five and 11-year bonds was sluggish, enabling the government to sell only SKr5.2bn of the SKr7.5bn offered.

UK utility loan terms under fire

By Martin Brice

The pricing on a forthcoming syndicated loan for East Midlands Electricity, the UK power distributor, is attracting fierce criticism from syndicate managers.

They say pricing of 15 basis points over Libor on the £350m loan, which is being arranged by Chemical Bank, is too low and for this reason it is not yet finalised after three weeks.

"This may be a deal too far," said one member of a syndicated loans team at an investment bank in London.

Supply of new loans has outstripped demand this year, driving down pricing as banks, hungry for assets, have turned aggressively to the syndicated loans market while borrowers remain wary of large debts.

The interest rate on a syndicated loan is usually set at a margin over Libor, the benchmark interest rate for the market. Over the past year, the spread on a syndicated loan to a typical European corporate borrower, with a Single A credit rating, has dropped from about 45 basis points to around 20 to 22 basis points and may fall still further.

However, although Chemical Bank would not comment on a deal still in syndication, it is believed in the market that a £500m loan for National Power being arranged by Chemical at a price of 17 basis points has been oversubscribed.

Another said: "Although East Midlands is a good UK name, 15 basis points over does not reward you sufficiently. Chemical is pushing the market further than it wants to go. But although we have reached the bottom, I don't think prices will start to go up."

World Bank launches long-awaited Y200bn global issue

By Graham Bowley

The World Bank yesterday launched its long-awaited global yen deal, a Y200bn issue of 10-year bonds with an offer spread of 9 to 11 basis points over Japanese government bonds.

However, syndicate managers said the offering, due to be priced today, was destined almost entirely for Japanese investors and would excite little US and European interest.

Merrill Lynch, Nikko Europe and Nomura International are lead managing the issue, the World Bank's first global yen offering since June 1993.

"Nobody outside Japan is currently buying yen-denominated issues," said one syndicate manager. "The distribution of this bond will be almost entirely into Japan."

However, a source close to the deal reported firm European demand, in particular from UK investment funds, and central banks, with many investors switching out of existing global yen bonds, such as the World Bank 5¼ per cent 2002 and World Bank 4½ per cent 2003.

"This bond offers a pick-up in yield of 2 to 4 basis points, which is attractive to investors," he said.

INTERNATIONAL BONDS

He added: "This deal is attracting more European interest than standard euroyen issues have done this year." He expects only about 60 per cent of the bonds to be sold to Japanese investors.

In the dollar sector, Bank South Australia launched a $250m issue of five-year floating-rate notes offering 35 basis points over three-month Libor.

J.P. Morgan, the lead manager, said there is continuing demand for floating-rate dollar assets, especially in the higher yielding sectors such as the Australian dollar market.

The lead reported broad support for the offering from institutional and retail investors in Asia and Europe, especially the UK.

At the shorter end of the dollar sector, the Council of Europe Resettlement Fund launched a $150m offering of two-year bonds priced to yield 14 basis points over US Treasuries.

The Fund has an annual short-term borrowing requirement of approximately Ecu1.1bn and an annual long-term funding programme - which is used for loans to member countries - for this year of about Ecu650m, most of which is already completed, a Fund official said. In 1993, the long-term borrowing requirement was Ecu1.1bn.

The Fund tapped the two-year area of the sterling sector in October. It last came to the dollar market in May with a similar two-year deal.

Lead manager BZW reported firm demand for the bonds from European retail and institutional investors.

Syndicate managers said that the offering was fairly priced and offered good value.

One syndicate manager said: "The two-year dollar sector has been hit hard by the speculation about a rise in US interest rates and is therefore now unlikely to fall much further."

Also in the two-year dollar sector, Union Bank of Switzerland launched a $150m offering of bonds priced to yield 5 basis points over US government bonds.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Bank South Australia‡	250	(a)	99.785R	Nov.1999	0.20R	-	JP Morgan
Co. of Europe Resett. Fd.	150	7.25	99.892R	Dec.1996	0.125R	-	BZW
Union Bank Of Switzerland	150	7.00	99.61R	Dec 1996	0.125R	-	UBS
Grupo Industrial Durango(b)‡	125	(b)	100R	Nov 1996	1.00R	-	Chase Investment Bank
YEN							
World Bank*	200bn	(c)	(c)	Dec.2004	0.325	-	M.Lynch / Nikko / Nomura
Hankyu Dept. Stores Europe	10bn	4.55	100.35	Nov 1999	0.35	-	Sanwa Intl
AUSTRALIAN DOLLARS							
Com.wealth Bk. Of Australia	100	10.125	101.33	Dec.1997	1.50	-	C'wlth Bk. Of Australia
PESETAS							
Republic of Argentina	10bn	12.80	101.00	Dec.1997	1.50	-	Bco Cent. Hispano - Am.
GUILDERS							
Rabobank Netherlands	350	7.50	99.95R	Dec.1999	0.25R	+18 (7½%-99)	Rabobank
SWISS FRANCS							
IABD	150	5.625	102.30	Dec.2001	-	-	Credit Suisse Zurich

Final terms and non-callable unless stated. The yield spread (over relevant government bond)at launch is supplied by the lead manager. *Unlisted. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Pays 3 month Libor +35bp. Call at par after 2 years b) Pays 6 month Libor +350bp. Amount increased from $100m c) Global issue. To be priced today.

Komerčni Banka sets east European benchmark

By Vincent Boland in Prague

Komerčni Banka, the second biggest bank in the Czech Republic in asset terms, is to raise $65m in the international syndicated loan market at a margin of 65 basis points over Libor, the narrowest spread yet for an eastern European borrower.

Last month another Czech bank, Ceskoslovenská Obchodni Banka (CSOB), the Czech and Slovak trade bank, set a new benchmark for such borrowers by raising $75m in a five-year loan at 70bp over Libor. CSOB had set the issue at $50m but strong demand pushed subscriptions to $120m before being scaled back.

Sumitomo Bank, arranger and agent for Komerčni Banka, said fees for the five-year loan would range from 25bp to 30bp. Sumitomo also arranged the CSOB loan. Full details of the new issue will be announced in London this morning.

The terms of the loan are likely to set another benchmark for Czech borrowers. It will be closely watched by other banks and corporates seeking to raise funds abroad, according to bankers in Prague.

Several issues are being considered and the reaction to such a narrow spread for the Komerčni Banka loan among prospective lenders will determine if margins fall further.

Komerčni Banka said it would use the funds raised by the loan to provide export financing to customers.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	89.7200	−0.900	10.71	10.53	10.10
Belgium		7.750	10/04	95.1900	−0.120	8.48	8.49	8.49
Canada *		6.500	06/04	82.8000	−0.250	9.25	9.10	9.04
Denmark		7.000	12/04	86.9500	−0.370	9.02	8.99	9.00
France	BTAN	8.000	05/98	101.2500	–	7.58	7.55	7.59
	OAT	5.500	04/04	82.1400	−0.270	8.29	8.28	8.13
Germany Treu		7.500	09/04	96.8900	−0.390	7.88	7.64	7.63
Italy		8.500	08/04	80.2100	−1.240	12.00†	11.73	11.81
Japan	No 119	4.800	06/99	102.7390	−0.140	4.10	4.10	4.11
Japan	No 164	4.100	12/03	95.9260	−0.400	4.74	4.74	4.76
Netherlands		7.250	10/04	97.0800	−0.350	7.68	7.61	7.56
Spain		8.000	05/04	80.8500	−0.380	11.37	11.25	11.09
UK Gilts		8.000	06/99	90-00	−9/32	8.59	8.65	8.53
		6.750	11/04	86-28	−15/32	8.73	8.72	8.69
		9.000	10/08	102-14	−20/32	8.70	8.69	8.67
US Treasury *		7.250	08/04	94-24	−8/32	8.03	7.84	7.69
		7.500	11/24	92-19	−14/32	8.16	8.00	7.90
ECU (French Govt)		8.000	04/04	83.1700	−0.190	8.67	8.68	8.66

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

		One month	4.79	Two year	7.05
Prime rate	7¾	Two month	5.65	Three year	7.32
Broker loan rate	6½	Three month	5.34	Five year	7.72
Fed.funds	4¾	Six month	5.66	10-year	8.03
Fed.funds at intervention	-	One year	6.36	30-year	8.16

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	110.02	110.20	-0.18	110.22	109.86	76,352	136,156
Mar	109.22	109.36	-0.18	109.38	109.20	2,608	13,894
Jun	108.40	108.54	-0.18	108.48	108.40	1,128	1,985

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Nov	Puts Dec	Puts Mar
110	0.82	1.50	-	0.65	-	-
111	0.39	1.06	-	1.18	2.71	-
112	0.14	0.73	-	1.94	3.37	-
113	0.05	0.47	-	-	4.11	-
114	0.03	0.31	-	3.82	-	-

Est. vol. total, Calls 28,744 Puts 40,616 . Previous day's open int., Calls 290,034 Puts 287,494.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	89.03	89.04	-0.35	89.29	88.95	75669	189518
Mar	88.12	88.10	-0.29	88.31	88.08	2623	16735

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
8900	0.65	0.57	0.83	0.98	0.61	1.47	1.73	1.88
8950	0.42	0.41	0.64	0.79	0.88	1.81	2.04	2.19
9000	0.26	0.29	0.49	0.63	1.22	2.19	2.39	2.53

Est. vol. total, Calls 16580 Puts 6923. Previous day's open int., Calls 291779 Puts 224608

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.10	100.18	-0.15	100.46	100.04	14950	53453
Mar	99.05	99.10	-0.14	99.35	99.05	425	8286

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
10000	0.95	2.12	0.77	3.02
10050	0.70	1.91	1.02	3.31
10100	0.50	1.72	1.32	3.62

Est. vol. total, Calls 1065 Puts 2725. Previous day's open int., Calls 26735 Puts 31638

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	86.25	86.10	-0.37	86.27	86.06	23,341	76,986

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100-25	100-22	-0-17	101-00	100-20	23754	108675
Mar	-	99-30	-0-16	-	-	0	62

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
100	1-15	2-09	0-35	2-13
101	0-44	1-43	1-00	2-47
102	0-21	1-16	1-41	3-22

Est. vol. total, Calls 4821 Puts 4010. Previous day's open int., Calls 80464 Puts 52512

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	80.18	80.20	-0.18	80.20	80.00	2,898	6,601

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	96-07	96-09	+0-02	96-12	96-01	442,581	384,407
Mar	95-17	95-21	+0-02	95-23	95-14	4,497	30,509
Jun	94-28	95-03	-	95-04	94-28	296	11,323

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	107.82	-	-	107.84	107.79	1121	0
Mar	107.07	-	-	107.07	107.05	235	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Nov 7	Day's change %	Fri Nov 4	Accrued interest	xd adj. ytd
1 Up to 5 years (24)	119.38	−0.19	119.60	1.57	9.83
2 5-15 years (23)	138.24	−0.49	138.93	1.45	11.49
3 Over 15 years (8)	154.73	−0.89	156.42	2.33	10.87
4 Irredeemables (6)	174.85	−0.35	175.47	0.30	13.47
5 All stocks (61)	135.83	−0.46	136.50	1.64	10.93

	Low coupon yield Nov 7	Nov 4	Yr. ago	Medium coupon yield Nov 7	Nov 4	Yr. ago	High coupon yield Nov 7	Nov 4	Yr. ago
5 yrs	8.62	8.54	6.13	8.68	8.59	6.38	8.83	8.75	6.51
15 yrs	8.58	8.50	7.13	8.72	8.63	7.25	8.96	8.86	7.45
20 yrs	8.53	8.46	7.22	8.72	8.63	7.30	8.86	8.76	7.47
Irred.†	8.58	8.55	7.33						

Index-linked	Mon Nov 7	Day's change %	Fri Nov 4	Accrued interest	xd adj. ytd
6 Up to 5 years (2)	185.82	−0.07	185.95	0.49	5.07
7 Over 5 years (11)	173.27	−0.11	173.46	0.94	4.38
8 All stocks (13)	173.69	−0.11	173.87	0.90	4.41

	Inflation 5% Nov 7	Nov 4	Yr. ago	Inflation 10% Nov 7	Nov 4	Yr. ago
Up to 5 yrs	4.07	4.03	2.33	2.94	2.90	1.53
Over 5 yrs	3.88	3.87	3.15	3.69	3.68	2.98

Debentures and Loans	Mon Nov 7	Day's change %	Fri Nov 4	Accrued interest	xd adj. ytd	5 year yield Nov 7	Nov 4	Yr. ago	15 year yield Nov 7	Nov 4	Yr. ago	25 year yield Nov 7	Nov 4	Yr. ago
9 Debs & Loans (77)	126.58	−0.86	127.94	2.33	9.57	9.76	9.66	7.89	9.72	9.61	8.22	9.67	9.56	8.35

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Nov 7	Nov 4	Nov 3	Nov 2	Nov 1	Yr ago	High*	Low*
Govt. Secs. (UK)	91.04	91.69	91.45	90.89	91.06	102.30	107.04	89.54
Fixed Interest	108.01	107.84	107.62	107.58	107.64	122.92	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31
Gilt Edged bargains	86.2	76.3	87.3	78.8	80.2
5-day average	81.7	79.0	80.0	80.8	82.6

UK GILTS PRICES

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on November 7

[illegible]

COMPANY NEWS: UK

Food ingredients disposal represents 'another significant step' in strategy

Allied Domecq in £265m sale

By David Blackwell

Allied Domecq, the UK food and drinks group that has decided to concentrate on spirits and retailing, yesterday sold its food ingredients businesses for a total of £265m.

Kerry, the Irish food group, has agreed to pay $402m (£248m) cash for DCA Food Industries, Allied's US food ingredients subsidiary, and Margetts Foods of the UK.

Separately Allied has agreed the sale of a DCA joint venture interest, not in the US, to a third party for $25m.

Mr Tony Hales, Allied chief executive, said the sales represented "another significant step" in the group's strategy.

"We are pleased to have found a committed buyer for DCA in Kerry," he added.

New York-based DCA makes ingredients such as food coatings for the industrial, food service and supermarket segments of the market. Margetts makes jams and processes fruit for yoghurt, ice-cream and bakery products.

The businesses had annual revenues of $333m and operating profits of $31.8m for the year to last February. Analysts suggested that Allied had got a good price, at well over $1 per dollar of sales.

Kerry, which yesterday described its purchase as "a major strategic acquisition", is to finance the deal through a combination of bank borrowings and a placement. Yesterday it placed 7.8m ordinary shares at 335p apiece with institutional investors, raising I£26m (£25.6m).

Borrowings will more than double to I£360m, giving gearing of well over 100 per cent. The group aims to cut this to less than 90 per cent by the end of next year.

The deal has been backed by Kerry Co-operative, which owns 52 per cent of the group, and is expected to be completed next month. It will lift the annual sales of the group's food ingredients businesses to about $1bn, accounting for more than half total turnover.

Allied Domecq changed its name from Allied-Lyons after paying £739m last March for control of Pedro Domecq Group, the Spanish drinks producer. Domecq is best known in the UK for sherry brands such as La Ina, but 50 per cent of its profits last year came from Mexico, where it owns Presidente, the largest-selling brandy in the world.

The group's extensive food and beverage businesses, with a total turnover last year of about £1bn, were put up for sale in the summer. Among prospective buyers for DCA were Dalgety and Grand Metropolitan in the UK and Heinz in the US. The Tetley tea and European bakery businesses remain on the market.

Goldman Sachs, the US investment bank, beat SG Warburg of the UK to advise Allied on the disposal of the food ingredients businesses. Warburg continues to advise Allied on the sale of the beverages and bakeries units.

Shake-up continues at New London

The reorganisation of New London, the oil industry services company, continues with the announcement of a disposal, acquisition and results showing reduced losses from continuing businesses.

The company is selling Well Solutions, its Texas-based energy industry services supplier, for $16m (£9.7m) in cash and $1.5m in convertible loan stock. Mr Paul Kesterton, chief executive, said the proceeds would be used to buy International Tool & Supply for an initial sum of $5.75m in cash and the issue of 20m new shares.

ITS operates a variety of international businesses serving the energy industry, from distribution and procurement to designing and manufacturing steam generators, and supplying products for the containment of oil spills.

The acquisition agreement included further payments in cash and shares, contingent on ITS meeting certain profit targets.

New London also announced interim pre-tax profits of $685,000, against a loss of $1.38m last time. Profits were helped by an $845,000 gain on the termination of discontinued operations. Sales fell from $58.4m to $12.2m due to the sale of International Drilling Fluids last year. Excluding IDF, sales rose from $11.8m.

Earnings per share were 0.6 cents (1.2 cents losses). There is no dividend.

The shares were suspended at 4p pending shareholder approval of the disposal and acquisition on November 29. Dealings are expected to resume on December 1.

Wellington Underwrite listing hitch

By Ralph Atkins, Insurance Correspondent

A delay by Lloyd's of London in approving fresh rules on corporate investment in the insurance market has caused a last minute headache for a new underwriting company planning a listing.

Wellington Underwriting, which intends to invest in seven Lloyd's syndicates run by the Wellington managing agency, is due to complete arrangements this week for placing 30m shares at 100p.

It faces a scramble to finalise the details after Lloyd's regulatory board failed last Friday to approve proposals allowing existing corporate vehicles to invest in others. The issue will be considered by Lloyd's council tomorrow.

Mr Anthony Cooper, chief executive of the Wellington agency, said the amount that would be affected by the proposed changes was "not critical", but the hitch has made the timetable for Wellington's placing tight. Commitment letters are due to be returned to Greig Middleton, its broker, on the same day as Lloyd's council meets.

Impact day is set for this Friday with dealings expected to start on November 17.

Lex Service sets up new division to tackle EU

By John Griffiths

Lex Service, the UK's biggest vehicle distribution and leasing group, is forming an international division with the intention of breaking into the car dealer networks of continental Europe. The move is a potentially significant one for the development of vehicle retailing in the EU.

Continental car markets, including France and Germany, are much more fragmented than in the UK. Most dealerships are privately owned and large public groups, such as Lex, are virtually unknown. Most represent tempting targets for UK groups seeking to replicate their multi-franchise dealer chains on the Continent.

Lex has nearly 130 UK car and commercial vehicle dealerships, representing more than 30 manufacturers. It sold 64,000 new and 30,000 used vehicles last year and accounts for about 3 per cent of the UK new car market. Its annual pre-tax profits amounted to £101.5m.

It and other large distribution companies, such as Inchcape, maintain that they are able to make the economies of scale and heavy investments in dealer facilities needed to strip the inefficiencies out of car retailing.

Mr David Beck, managing director of Lex's retail group, is to become managing director of Lex Automotive International. He oversaw Lex's entry into vehicle retailing in North America with the takeover of Campbell Automotive, a chain of California dealers, in 1989.

Lex already has two small leasing ventures in France, covering cars and fork lift trucks.

"However, we are now in a situation where we can look at continental opportunities, both dealerships and importerships, systematically." Lex said.

The announcement of the European venture comes about a month after the European Commission's decision to allow Europe's car makers and dealers to keep their privileged system of exclusively franchised dealer networks for another 10 years.

However, the amended terms of this "block exemption" from normal EU competition rules should make it easier for dealer groups with enough financial resources to set up multi-franchise networks on the Continent.

As part of Lex's management changes, Mr Jon Walden, a main board director, will replace Mr Beck as managing director of Lex Retail Group, which manages the car dealerships. Mr Walden is managing director of Lex Vehicle Leasing and chairman of Hyundai(UK).

Growth in exports behind rise at Elliott

By James Whittington

Shares in B Elliott yesterday rose 10p to 99p as increasing exports to North America and east Asia helped the electrical and mechanical engineer lift interim pre-tax profits by 55 per cent to £1.94m, against £1.26m.

Export-driven growth in the specialist engineering and electrical and electronic systems divisions contributed to an 18 per cent increase in turnover to £48.1m (£40.7m) in the six months to September 30.

Earnings per share rose 24 per cent to 4.06p (3.28p). Interim dividends are restored at 1p, equal to the previous year's total.

Mr Michael Frye, chief executive, said the results demonstrated the "complete restructuring of the company from a machine tool manufacturer to greater focus on specialist technology".

Sales in the specialist engineering and electrical divisions both grew by about 30 per cent. On the other hand, sales in the process technology division, which manufactures machine tools, declined by 11 per cent to £9.8m (£11m), owing to low demand in the UK and contractual problems, Mr Frye said.

During the period the company made four small acquisitions, worth £2m in total, which it has bolted on to existing operations. Mr Frye said the strong balance sheet allowed for further acquisitions.

Net borrowings stood at £9.9m at September 30, pushing gearing up slightly to 83 per cent. The net cash balance was £1.8m.

Mr Frye said that with further opportunities for growth overseas and an improvement in the UK market, the company expected continued organic growth.

Rentokil makes £8m buy in security services

By Simon Davies

Rentokil yesterday announced its first investment in security services since the £75.7m acquisition of Securiguard in mid-1993.

It is to pay a maximum of £8m for Granada Group's security operations held by Sterling Granada Contract Services.

Mr Clive Thompson, chief executive, said: "We are saying through this acquisition that we are happy with our position in the UK security services sector, and that we want to expand it further."

Sterling Granada had turnover of £20m last year, but was barely profitable. However, Rentokil is confident that its performance will be rapidly improved, through the reduction of management overlap with Securiguard.

Securiguard has proven a successful acquisition, and remains on target to achieve double digit profit margins within 2 years of its purchase. Mr Thompson said he intends to develop the company into a "major player" within the UK, and analysts expect further acquisitions both in the UK and US.

Sterling Granada will have net assets at completion of £1m. Its traffic and secure storage businesses are to be retained by Granada.

Beckenham suspended for second time in a year

By James Whittington

Beckenham Group, the USM-quoted heating and ventilation engineer, suspended its shares yesterday owing to uncertainty over its financial position.

It is the second time in less than a year that dealings in Beckenham's shares have been halted.

The latest move comes after a comprehensive restructuring of the group. Last year, losses on contracts forced it into a capital reconstruction programme, which included a placing and rights issue and the sale of subsidiaries.

However, it continued to report losses, with an interim pre-tax deficit of £2.6m in the period to April 30, compared with a £186,000 loss 12 months previously. Turnover fell from £17.4m to £13m.

Neither the company nor Townsley & Co, the house broker, wished to comment on the suspension. Mr Peter Long, chairman, said he hoped to make an announcement today.

Five Oaks £2.28m in black

Five Oaks Investments, the property group, swung from an £851,000 loss to a pre-tax profit of £2.28m during the year to June 30.

As a result, earnings per share were 2.54p (1.83p losses) and the recommended final dividend of 0.3p makes a total of 0.5p (nil) for the year.

Rental income grew 20 per cent to £4.2m, with the current annualised figure running at £5.2m.

The balance sheet was strengthened through a share placing and open offer, which increased the capital base by £12.2m. Also, a large part of the short-term debt was converted into a £15m 25-year secured debenture. Gearing fell from 106 per cent to 44 per cent at the year end.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
AB Foods	fin	7.5	Mar 2	6.5	16	15
BAA	int	3.75	Jan 25	3.375*	-	9*
Elliott (B)	int	1	Jan 16	nil	-	1
Five Oaks	fin	0.3	Dec 20	nil	0.5	nil
Henderson Admin	int	13.5	Jan 10	12.5	-	44
Investment Co	int	0.75	-	0.6	-	1.5
Kenwood Appincs	int	3.25	Feb 24	3	-	9
Merchant Retail	int	nil	-	0.2	-	0.2
Prowting	int	1.9	Jan 18	1.7	-	3.4
Stratagem	fin	3.5	Jan 3	3.25	5	4.75

Dividends shown pence per share net except where otherwise stated.
*Equivalent after allowing for scrip issue.

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ABF held back by fall in investment income

By David Blackwell

A sharp fall in investment income depressed profits at Associated British Foods, the milling, baking, and sugar group which was restructured earlier this year in order to improve tax planning at the Weston family trusts that control the company.

Pre-tax profits for the 52 weeks to September 17 fell to £324m, against £338m for the 53 weeks to September 18 1993.

Fluctuating bond and gilt prices knocked the returns on investments of about £700m down from 11.5 per cent to 1.5 per cent, yielding income of just £21m compared with £83m last time.

Mr Garry Weston, chairman, described the 1993 returns on the gilt portfolio as "exceptional", while the low point in the market had been reached at the end of the group's latest financial year.

Turnover of £4.48bn was slightly ahead of the previous £4.39bn, but was effectively flat given that the 1993 figures covered 53 weeks.

Mr Weston said the markets for bread and sugar were still "pretty tough – go in any supermarket and they will be on sale below cost". Nevertheless the group lifted operating profits from £273m to £306m.

It was defending its market position by continually improving efficiency and introducing new products with better margins, he said.

UK manufacturing increased profits by 11 per cent to £222m. Rationalisation costs were £3m lower at £13m. At British Sugar profits advanced to £167m on a lower harvest.

After allowing for dividend payments last month, net cash was £610m at the year-end, up £109m. Capital expenditure remained steady at £200m.

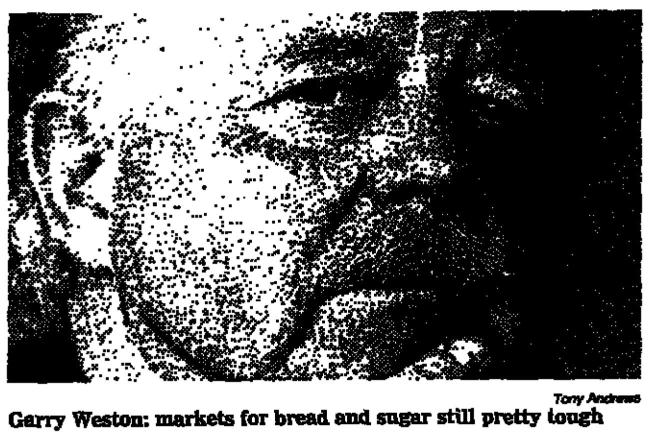
In addition to the investment income the pre-tax figure included £4m from property disposals (unchanged from the previous year) and £23m (£12m) from the group's investment in Berisford International. Interest payable fell from £34m to £30m. The tax charge was reduced by £35m, reflecting reassessment of previous Berisford losses. The group paid £63m (£104m).

Consequently earnings per share were sharply ahead at 56.7p, compared with 50.7p last time.

A final dividend of 7.5p (6.5p) is proposed, giving a total for the year of 16p (15p).

● **COMMENT**

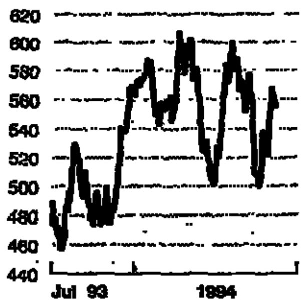
After the feast in the bond market last year it was only to be expected that famine would follow. While 1.5 per cent can only be described as an appalling return, better times are likely to reappear this year. The operating profits were better than expected, reflecting the continued drive to control costs. This is necessary given the supermarkets' propensity to offer discounts on white loaves. There should be some benefits from the acquisition of Bibby's agricultural feeds operation last April, and the group continues to churn out the cash. Even with an upturn in investment income, earnings this year will be lower as the tax charge returns to normal. The City is expecting about 51p a share, giving a prospective multiple of 11 – nothing to get excited about.



Tony Andrews

Garry Weston: markets for bread and sugar still pretty tough

Associated British Foods



Source: FT Graphite

Control Techniques in takeover talks

By Paul Taylor

Shares in Control Techniques jumped 83p to 468p yesterday after the Powys-based electronic drives group announced that it was in takeover talks with Emerson Electric of the US.

Emerson already holds 29.4 per cent of Control, but undertook not to increase its stake under a 1991 standstill agreement. That agreement expired at the start of June.

Control said that it was in discussions with Emerson "which may or may not lead to an offer for the ordinary shares in Control Techniques not already owned by Emerson".

The relationship between the two companies dates back to 1991 when Control acquired 80 per cent of ICD Drives, a New York subsidiary of Emerson, in exchange for 7.6m Control shares. ICD Drives was later renamed CT Drives.

Emerson's shareholding in Control was subsequently increased to about its current level through a tender offer at 320p for 3.8m shares.

Under the terms of the original agreement, Control has acquired Emerson's remaining 20 per cent stake in CT Drives for $7.9m (£4.8m).

Enhancing stock performance

Peter John considers the increasing popularity of lending shares

The UK may have one of the world's most sophisticated stock markets but when it comes to stock lending, it behaves like an emerging market with all the barriers and opportunities that implies.

Now, however, stock lending is coming in from the cold and bankers consider it has great potential.

Traditionally dogged by regulations and middlemen, it recently received a fillip from the change to rolling settlement. And many fund managers hope the chancellor of the exchequer will shortly liberate gilts lending to provide a real impetus for change.

Stock lending is the lending of shares or bonds to meet the temporary needs of other parties, typically dealers, who need securities to support their trading.

Mr Roy Zimmerhansl, one of Nomura's global securities analysts, said: "It is a bit like a shopping trolley. If you decide to do your grocery shopping for the next three months you could buy all the food. But without a trolley you can't get it home. It oils the wheels of every part of equity business."

Although there is a transfer of title, the lender retains the benefits of ownership such as dividends and is secured with collateral and paid a fee. Institutions which invest for the long term can squeeze an extra drop out of their portfolios.

Wells Fargo Nikko Investment Advisers index funds, which are heavily involved in stock lending, have often outperformed world markets, excluding the US, with the help of this technique.

Although there is a transfer of title, the lender retains the benefits of ownership, such as dividends, and is secured with collateral and paid a fee

The UK, however, is hampered by a frisson of nervousness that goes back to the Robert Maxwell debacle. Maxwell, the erstwhile media baron, had a habit of borrowing stock from one part of his empire to prop up loans in another. The exposure of his malpractices brought the concept into disrepute.

A more important limiting factor is the heavy regulatory system which the Inland Revenue originally imposed to plug possible tax loopholes.

Only approved marketmakers can borrow stock and then only if they are already dealing in that stock. If they want to borrow UK equities they have to go through an approved money broker, who takes a cut.

In addition the collateral in the UK is only 102 per cent of the value of the stock while internationally it is 105 per cent, giving the lender more of a cushion.

Finally, convention has it that collateral is only represented by certificates of deposit or short-term Talisman certificates, which are made up of a basket of stocks.

Fund managers complain that because you do not know what makes up the basket of stocks you could lend out quality stock and get questionable collateral. In theory it would have been possible in 1990 to have lent ICI and received Polly Peck as collateral, just before it collapsed.

Internationally, collateral is agreed between the two parties.

"In terms of UK and international lending we focus our activities on international stocks because the security is better and the rates higher," said Mr Michael Robarts, director of Fleming Investment Management.

However, the UK picture is changing rapidly. Some estimate that stock lending turnover has risen by 30 per cent over the past year. Previously the returns were so small and the cost and workload involved so great that four or five leading UK institutions withdrew from the activity.

The change is partly the result of the recent gilt market's move, earlier this year, to 10-day rolling settlement from two and three week dealing accounts.

The need for marketmakers to balance their books every day, rather than at the end of the account, has caused demand for borrowed stock to rise.

The big change the market is awaiting is the ability to carry out gilt repurchase agreements which many believe could be sanctioned in the forthcoming Budget. At present, gilt repos are held between the Bank of England and the clearing banks, who by law have to balance their books every day.

It is suggested that traders may be able to repurchase from each other with the probability that the need to go through money brokers would disappear.

Once money brokers become unnecessary for repos, the same would be true for stock lending. The fees they charge would disappear, the margins for the lenders would increase and investors in UK equities would be able to exploit a technique that helps them maximise the value of their portfolios.

CRH expands into Argentina with $33m stake in tile maker

By John McManus in Dublin

CRH, the Irish building materials group, has expanded into South America with a $33m (£20m) investment in Canteras Cerro Negro, an Argentinian tile maker.

The move is the first investment by CRH outside North America and Europe and is part of its strategy of expanding in emerging markets.

CCN is privately owned and the principal shareholders are an Argentinian family of Irish extraction, the Diaz O'Kellys. It makes clay roof, wall and floor tiles and has 30 per cent of the Argentinian market.

CRH is paying $5.7m for a 30 per cent stake in CCN and has invested another $27.3m in the form of a $9.3m convertible loan and $18m in loan capital.

CRH can increase its stake to 51 per cent through conversion of the convertible loan.

It also has an option to increase its shareholding to 95 per cent, based on a multiple of CCN's pre tax profits over the next three years. The Argentinian company last year made an operating profit of $8.8m on sales of $66m.

The loans carry an interest rate of 16 per cent and the investment would be earnings enhancing for CRH in the first year, said Mr Jack Hayes, managing director for finance and development at CRH. "It should be worth $3m a year after tax," he said.

NEWS DIGEST

Hartons may receive full offer

Hartons Group said yesterday that discussions being held between two of its main shareholders and a third party may result in a full offer being launched for the distributor of semi-finished plastics.

If a deal were struck, at an intimated price of 8p per ordinary share and 60p per 7 per cent convertible cumulative redeemable preference share, the purchaser would hold more than 30 per cent of the issued voting capital, triggering a bid under the Takeover Code.

The shares rose 1p to 7p yesterday, valuing the group – which has incurred losses in the past four years – at £5.2m.

Woodchester Invs

Woodchester Investments and Credit Lyonnais, the French banking group which has a 53 per cent stake in the Dublin-based leasing and banking concern, are reorganising their joint continental European leasing operations.

Woodchester is exchanging its 30 per cent holding in Credit Lyonnais Leasing Europe for the Credit Lyonnais Group's 80 per cent holding in Sliball Portuguesa – Companhia de Locacao Financeira and 100 per cent shareholding in Credit Lyonnais Finans Danmark, together with a cash payment to Woodchester by Credit Lyonnais of FFr96.2m (£11.4m). Both companies are controlled by CLLE.

Woodchester is also selling its remaining 30 per cent holding in Woodchester Trade Finance to Credit Lyonnais for £1m, equivalent to Woodchester's share of its net assets at September 30. The move is in line with Woodchester's aim of withdrawing from non-core activities.

Woodchester is proposing to adopt a twin share scheme, to enable the payment of a dividend with a lower tax credit to be made. This will help cut its advance corporation tax liability significantly.

Automagic rises

Despite "difficult trading conditions", pre-tax profits of Automagic Holdings, the USM-quoted shoe repairing and key cutting group, almost doubled from £122,000 to £243,000 in the year to June 25.

The outcome was struck on turnover down from £1.16m to £1.12m. Earnings came out at 2.4p (2p).

Trading during the hot summer months had not been easy, directors said, and the difficulties had been exacerbated by the signal workers' strikes.

Raglan picks up

Raglan Properties, the development and investment company, announced an increase in interim pre-tax profits, from £89,000 to £3.07m, reflecting an expansion in its portfolio and a pick-up in the property sector.

Turnover for the six months to September 30 advanced to £12.8m (£4.9m). Earnings per share jumped to 2.71p (0.3p).

Raglan has undergone a transformation over the past 20 months, including a share consolidation, financial restructuring and new management.

In September, the company had its second rights issue in nine months in which it raised about £21.8m after costs, in a 3-for-4 issue which was to acquire Letinvest, now Raglan Estates.

Gross rental income was £2.22m (£304,000) and the profit on sale of investment properties was £1.25m (£184,000). The figures included the purchase of Letinvest from September 20.

A final dividend, the first since 1989, is planned for this year.

Merchant Retail

The lack of an exceptional disposal loss of £223,000 and lower interest charges enabled Merchant Retail Group to return to profit for the 26 weeks to October 1 with £243,000 pre-tax, against a £31,000 deficit last time and full year losses of £4.85m.

Operating profits at Joplings, the north-east of England department stores, edged ahead to £764,000 (£753,000) but Normans, the south-west supermarket chain, fell to £938,000 (£1.17m). Losses at the Perfume Shop were steady at £203,000 (£202,000).

Turnover was £72.3m (£80.3m). The interest charge was £815,000 (£887,000). Earnings per share were 0.18p (losses 0.15p). The interim dividend is passed; there was a 0.2p payment last time. Shareholders are being asked to approve a reduction in the share premium account to allow the resumption of dividends.

Cobham US deal

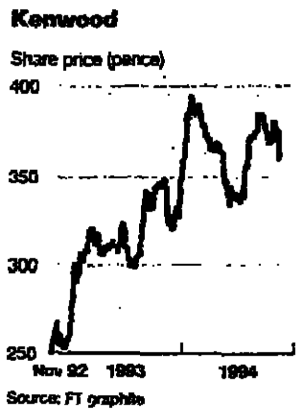
Chelton, a subsidiary of Cobham, formerly FR Group, has acquired Comant, a leading US aircraft antenna manufacturer, for $3.25m (£1.98m) cash.

Comant, based in Los Angeles, is operating profitably with annual turnover of more than $3m.

COMPANY NEWS: UK

Kenwood rights to fund £22m Italian purchase

By Richard Wolffe



Source: FT graphite

Kenwood Appliances, the household appliances producer, yesterday accompanied its interim results with a rights issue to fund the £22m acquisition of an Italian manufacturer.

The 1-for-4 rights issue, priced at 310p, is expected to raise a net £27.3m. This will finance the acquisition of Ariete, a Florence-based producer and distributor of household appliances, as well as funding product development. Kenwood's share price fell 14p to 360p yesterday.

Mr Tim Parker, chief executive, said: "Ariete has a complementary range of products and an established position in the Italian market. The opportunities for growth in international markets with Ariete's existing product range and new ranges under development will be substantial."

Ariete's main products include coffee-making machines and steam irons. Some Kenwood products will be branded under the Ariete name in Italy, as Kenwood hopes to exploit Ariete's distribution network in the Mediterranean area.

In 1993 Ariete reported pre-tax profits of L6.6bn (£2.6m) on turnover of L57.4bn. Sales increased 34 per cent in the nine months to September 30.

Kenwood has agreed to pay L46bn in cash and an additional L3bn based on Ariete's pre-tax profits for the year to December 31. The owners, who are mainly private shareholders, have also retained the right to a dividend for the year.

The deal, which is subject to a maximum of L70.6bn, is conditional on approval from the Italian anti-trust authority. Completion is expected by December 7.

Ariete is the latest in a series of acquisitions which fit into Kenwood's strategy of international expansion.

In October last year the group paid £4m for Precision Engineering, including its Waymaster subsidiary which manufactures water filters and kitchen scales. Two years ago, it spent £3.9m on Tricom, the Hong Kong company which produces small kitchen appliances in southern China.

Waymaster's contribution helped to lift Kenwood's pre-tax profits 12 per cent to £6.01m (£5.35m) during the six months to September 30.

Turnover rose 10 per cent to £60.4m (£55m), despite lower like-for-like sales in the UK.

Interest costs increased from £364,000 to £646,000. Gearing, which rose from 19 to 46 per cent at the half-year stage, is expected to fall to 25 per cent by the end of the year, ignoring the Ariete acquisition.

Earnings per share rose to 11.3p (9.6p) and the board proposed an interim dividend of 3.25p (3p).

The company floated in June 1992 with a placing price of 285p.

L&G US subsidiary faces $8.75m fine

By Alison Smith

Banner Life, a US subsidiary of Legal & General, is facing the prospect of an $8.75m (£5.33m) fine and payment of compensation to investors as a result of action taken by the Texas Department of Insurance.

This could also lead to the revocation of the insurer's licence to do business in Texas.

Banner Life denies that there has been any significant mis-selling of its policies and is planning to contest the action.

The US regulator's concern has focused on the sale of "universal life" policies to people over the age of 65.

These are term assurance – or protection only – policies where a lump sum premium is paid and a sum at least 2.5 times that amount is paid when the investor dies.

The regulator says that hundreds of customers wrongly thought they were buying a savings investment plan.

Banner Life admits mis-selling has taken place in a few instances, but says it has already paid compensation in the cases identified so far.

The next stage of the process is a formal hearing at the Texas Office of Administrative Hearings: a decision is not expected for six months or so.

There have been several actions at state level against the sales practices of insurers. The recommended fine is a record for Texas.

L&G said that universal life policies represented only about 5 per cent of Banner Life's business in terms of premium income.

Enlarged Prowting moves ahead sharply to £4.42m

By Richard Wolffe

Pre-tax profits at Prowting, the housebuilder, increased eightfold in the six months to August 31, reflecting an acquisition and growth in part-exchange sales.

In its first interim figures since the £22.6m purchase of Galliford Homes in September last year, Prowting reported pre-tax profits of £4.42m (£519,000).

Turnover increased to £44.5m (£15.6m) as sales rose from 165 to 511 units, of which Galliford contributed 267.

Part-exchange now accounts for about 50 per cent of sales, compared with 40 per cent last year, with most second-hand homes selling within 12 weeks.

The average selling price rose slightly from £85,000 to £86,000, but the company forecasts little or no price inflation this year.

"The housing market still remains fragile," said Mr Terry Roydon, chief executive. "None of us wishes to return to a boom-and-bust economy, but nevertheless I trust that interest rates will not increase further in the short term."

Operating margins rose from 10 to 13 per cent, despite building costs increasing by between 1 and 2 per cent.

Net borrowings at the interim stage stood at £24.9m (£20.1m), for gearing of 35 per cent. Prowting expects this to rise to as much as 50 per cent as it continues to purchase land.

The company currently has 5,800 plots with planning permission, equivalent to five years' building.

Earnings per share rose from 0.3p to 3.6p. The interim dividend is 1.9p (1.7p). Mr Roydon said the intention was to return progressively to the historic dividend of 5p.


Terry Roydon: the housing market remains fragile

NEWS DIGEST

Stratagem's rise to £2m helps shares

Shares of Stratagem Group yesterday jumped 7p to 174p after the revamped manufacturing, distribution and services company turned in full-year pre-tax profits of £2.12m.

The outcome, for the 12 months to August 31, compared with profits of £1.2m last time and was achieved on turnover ahead to £80.4m (£10.5m), reflecting the acquisition of Harrison Industries in August 1993.

"We said that we would turn round last year's acquisition and these figures show that we deliver on our promises," said Mr Bernard Kerrison, chairman.

The recommended final dividend is raised to 3.5p, making 5p (4.75p) for the year, covered 2.5 times by earnings of 12.7p (9.5p) per share.

Holmes Protection

Holmes Protection, the US security group quoted in the UK, reported pre-tax profits of $1m (£600,000) for the nine months to September 30, compared with $239,000.

Turnover was down 4 per cent to $38.8m ($40.4m). The board attributed the increase in profits on lower revenue to the $1.33m reduction in operating costs. Earnings per share came out at 1.9 cents (0.2 cents).

BPP acquisition

BPP Holdings, the education and training group, has acquired 51 per cent of Hazell Carr Training for an initial £1.44m, split as to £438,000 in cash and £1m in loan notes.

An additional sum capped at £1.7m, to be met by the issue of loan notes, is also payable.

HCT publishes study material and provides face to face tuition courses and marking services to students studying for examinations of the Institute of Actuaries and the Faculty of Actuaries. The business operated as a partnership until October 28.

IMI £2.6m buy

IMI Waterheating has acquired Andrews Water Heaters from Andrews Sykes for £2.6m in cash.

For the year to March 31, Andrews Water Heaters had profits of £484,000 before central charges, interest and tax, on turnover of £3.3m.

IMI Waterheating is part of the building products group of IMI, the engineering company. The acquisition will extend its range of gas-fired products. Meanwhile, the disposal represents the next step in Andrews Sykes' plans to concentrate on its core activities of pumping, heating and air conditioning.

REA £1.3m sale

REA Holdings is to end its involvement in west Africa with the £1.3m sale of its 26 per cent interest in Plantation J Eglin, which grows bananas and pineapples on the Ivory Coast.

The assets being sold are valued at £1.1m, including loans. They contributed a loss of £71,000 in the last audited accounts, but have since been profitable.

Two thirds of the price is receivable in three months and the balance in December 1995.

Filtronic Comtek

Filtronic Comtek, the mobile telecommunications equipment manufacturer, is to build two new factories.

The first is on a 2.5 acre site acquired from Salts Estates in Yorkshire for £615,000; the second is a 60,000 sq ft factory on a site in Maryland, US, which is being acquired for $525,000 (£326,000).

Filtronic came to the market at the beginning of October. The new site announcements mark the inception of the investment and expansion promised then.

Henderson improves 22% but pensions side slides

By Bethan Hutton

Henderson Administration, the fund management group, increased pre-tax profits by 22 per cent to £11.2m for the six months to September 30, compared with £9.2m last time.

Funds under management and administration increased from £12.2bn to £13.7bn. Inflow of net new funds was £401m in the six-month period and £981m over the year.

The strongest growth areas were retail funds, particularly investment trusts and peps, and international funds, which rose from £984m at March 31 to £1.4bn. Funds under administration – mainly retail funds managed in Luxembourg for banks to market under their own names – grew from £1.4bn to £1.6bn over the six months.

Pension funds under management slipped from £5.1bn at end-September 1993 to £4.7bn 12 months on.

Mr Ben Wrey, chairman, said: "Reversing the flow of funds from our pension fund company is among our highest priorities." Part of the strategy for this is the appointment of Mr Dugald Eagie as managing director of Henderson Pension Fund Management.

Further expansion of the international division is planned, with another office, probably in south-east Asia, likely to open within a few months. Mr Jeremy Edwards, managing director, added that the group was not ruling out further acquisitions after the Touche Remnant takeover.

The interim dividend is 13.5p (12.5p), payable from earnings of 36.37p (28.23p). "Barring unforeseen circumstances" last year's final of 31.5p will at least be maintained.

Select Appointments pays £3.3m for Japanese stake

In its seventh acquisition in a year, Select Appointments, the USM-quoted recruitment agency, has paid Y519.5m (£3.29m) cash for a 49 per cent stake in Niscom Services, a recruitment agency based in Tokyo and specialising in computer staff.

It has also taken an option to buy an additional 2 per cent for £134,000.

Of the cash consideration, £2.48m will be paid to existing shareholders and £805,000 will be subscribed for new shares in Niscom.

Niscom's turnover for the year to March 31 was £23.5m, generating pre-tax profits of £1.5m.

Select launched a £44m rights issue in August at 12½p to fund acquisitions and a refinancing. The shares yesterday added ¼p to 14½p.

Select also announced the acquisition of recruitment businesses based in Greece through a new 51 per cent-owned subsidiary, for £53,000 plus the issue of new shares to the vendors, giving them a 49 per cent interest.

It has also established a joint venture in South Africa trading as "Only the Best", for which it has subscribed £70,000 as convertible loan notes.

Executives not deterred by flotation failures this year

By Peter Pearse

In spite of the well-publicised failure of 1994 flotations such as Aerostructures Hamble and McDonnell Information Systems, some 96 per cent of key executives in other companies recently floated say that, given the opportunity, they would repeat the exercise.

However, the same MORI survey – commissioned by Eversheds, the law firm – revealed that feelings on the value of the different advisers varied widely.

Only 56 per cent rated their merchant banks as "good" or "very good" value for money. This compared with 72 per cent for their accountants and 81 per cent for their lawyers.

In terms of service, 75 per cent were "satisfied" or "very satisfied" with their merchant banks, 88 per cent with their accountants and 93 per cent with their lawyers.

The survey found that in 51 per cent of cases the total costs of flotation exceeded expectations, though companies which agreed fixed fees with their advisers in advance fared better. In 81 per cent of cases where costs did not exceed expectations, this was because they had been fixed in advance.

Over the 18 months of the survey's span, 94 per cent of flotations have proved a "commercial success", in that they realised "at least as much capital as anticipated by the company in question".

Of the 140-odd companies floated between February 1992 and March 1994, 82 managing directors, chief executives, finance directors and company secretaries were interviewed.

COMMODITIES AND AGRICULTURE

Peruvian purchase to boost Cominco zinc output by 50%

By Sally Bowen in Lima

Cominco of Canada, one of the world's leading producers of refined zinc, will increase its total output by around 50 per cent with its purchase of Peru's Cajamarquilla zinc refinery.

The Vancouver-based company, in association with the Marubeni Corporation of Japan, bid $193m for the refinery at a public auction on Friday that produced no rival offers. Cominco has 83 per cent of the consortium, Marubeni – a holder of Peruvian secondary debt paper – the remainder.

According to Cominco's Mr Richard Mundie, the Cajamarquilla purchase "will permit highly attractive synergies" with the company's Canadian Alaskan operations. Customers in Asia will be served with zinc refined in Canada, while Cajamarquilla – just 30 miles east of Lima's port of Callao – will ship zinc to Europe. Cominco's Trail refinery in Vancouver at present produces almost a tenth of the world's refined zinc.

Cominco's offer was $33m above the base price fixed for the sale of $120m cash and $40m in secondary debt paper. Under highly favourable conditions, apparently designed to encourage local bids for the refinery, the bulk of the cash payment will be spread over the next fourteen years.

There is also a $30m minimum investment commitment for upgrading and expanding the refinery over the next four years. Mr Mundie expects that, with "marginal improvements", Cajamarquilla's production can be boosted from its present 90,000 tonnes to around 140,000 tonnes of refined zinc a year. Production costs in Peru, despite expensive energy, will not be substantially different from those in Canada, company officials said.

Cominco recently set up a local office in Peru and has around a dozen people working in exploration. It participated in the auction for the La Granja copper deposits last February, which went to another Canadian company Cambior. Cominco says it is also considering a bid for the Peruvian copper deposits of Michiquillay, scheduled for sale shortly.

European farm total down 13%

By Alison Maitland

Farming in the European Union has become concentrated in far fewer hands over the past decade and the trend is set to continue, according to the European Commission.

The number of farms in the EU declined by 13.2 per cent between 1980 and 1990, says a report on the future for young farmers, to be presented to agriculture ministers at the end of the year.

The decline was even more dramatic in individual member states, with Denmark seeing a 34 per cent fall in farm numbers, Belgium 26 per cent and Ireland 24 per cent.

The amount of land in agricultural use in the EU remained stable at 115m hectares, while average farm size increased by 11.2 per cent.

Mr Frank Leguen de Lacroix, a senior Commission official, said concentration of farming would continue, given that 55 per cent of farmers were aged 55 or over and many had no direct heir.

The trend would be particularly pronounced in Greece and southern Italy, where farms had become fragmented and agriculture was not always the farmer's main source of income.

"We need to rationalise if farms are to be economic propositions and if farmers are to be able to apply the environmental constraints which are being phased in," he said. Mr Lacroix accepted that young farmers and potential farmers were worried about their future, given the difficulty of entering quota-capped sectors and the prospect of further changes to the common agricultural policy.

But he said some fears were exaggerated.

"In the UK, there's a feeling that this [system of subsidies] can't last, that it must end in 1996. But in other countries the pressure is such as to keep the current system going. It's a fundamental issue of faith."

The report, commissioned by ministers during the Greek presidency in May, will highlight the extremes of farming across the EU. Average farm size in Greece, for example, is 4ha, compared with 68ha in the UK.

Some 7.6m people were employed in agriculture and forestry in 1992. But farming as a percentage of the workforce varied from 27 per cent in Greece to 2.2 per cent in Britain.

Young farmers commonly started out in horticulture and the dairy sector. Their level of indebtedness also varied enormously, from Ecu 1,807 in Spain to Ecu 205,000 in Denmark.

"These figures. . . emphasise the differences of approach we may need to take if we are to encourage young people to choose a career in farming," said Mr Leguen de Lacroix.

Citing examples of how member states aid new entrants, he said Denmark kept 29 per cent of its milk quota reserves for young producers, while France trained young farmers and encouraged older producers to transfer tenancies to young people outside their families.

Middle way urged for EU agricultural policy

By Alison Maitland

Farming without subsidies can lead to rural decline, a neglected countryside and volatile incomes for farmers. It can also mean more opportunities for new entrants, innovative marketing of produce and less bureaucracy.

Mr Graham McConnell, a New Zealander who recently took over as principal of Harper Adams, a leading British agricultural college, believes European agriculture should find a middle way between the extremes of hefty subsidies and free markets.

Some 10 per cent of total farm income in Australia and 5 per cent in New Zealand is derived from subsidies, compared with 38 per cent in the European Union.

Mr McConnell, who taught farm management in Australia for 16 years before moving to the UK, told a recent conference organised by the Country Landowners' Association:

"An undeniable consequence of free market farming is frequent periods of low profitability and consequential decline of rural communities and services."

Farming at world prices means uncertainty is greater and farmers are less willing and able to borrow to expand, said Mr McConnell. Some farms are run-down, and farmers employ as few staff as possible, adopting a conservative approach of "low debt, low stocking rates and low risk."

He added: "Rural depopulation is a serious consequence of low farmer incomes...There are many semi-ghost towns with no industry and surrounded by an impoverished farming community".

On the other hand, volatile land and stock values in Australia and New Zealand provided regular opportunities to buy at a discount. "In both countries, there are still opportunities for a keen young person. . . to go farming in his own right. This is usually achieved by leasing land initially or share milking."

Mr McConnell said it was impossible to back one or other system completely, especially in a European Union of 350m people, compared with Australia's 18m and New Zealand's 3.5m. "It is illogical to believe that the EU and Britain must choose one or the other, with no middle ground."

Exaggerated threat seen in eastern promise

The agricultural potential of the former communist bloc may be overestimated

FARMER'S VIEWPOINT

By David Richardson

Most UK farmers have absorbed the European Union's common agricultural policy reforms far more easily than they dared hope when the measures were agreed in 1992. More than two years through the three-year programme they find themselves making bigger margins, not the smaller profits they had been led to expect.

There are a few exceptions, particularly among the producers of pigs, fruit and vegetables – significantly, perhaps, all virtually unsupported by the EU. For most of the rest, the first two years of reform have been good ones.

However, as those measures are concluded in the middle of next year, the General Agreement on Tariffs and Trade settlement, assuming it is universally ratified, is scheduled to come into effect. Key aspects affecting EU agriculture are the reduction of internal support for the industry by 20 per cent; a cut in export subsidies of 36 per cent and in export volumes of 21 per cent – all to be phased in over six years.

EU officials have consistently claimed that these measures could be achieved within those already taken in reforming the CAP: that the production control afforded by acreage set-aside, combined with a forecast increase in internal consumption of lower priced EU-produced raw materials for feeding to livestock, would remove the need for further restrictive policies.

Britain's National Farmers' Union has never accepted this and has predicted that crop yields would continue to increase across the EU, thereby negating much of the effect of idling land. Moreover, the NFU, along with many farm industry pundits, believes that further reform of the CAP, within the next few years, is inevitable.

At grass roots level, however, this prospect is causing hardly a ripple. Farmers have money in their pockets and a degree of complacency has set in.

"If we can come through CAP reform as easily as we have," the thinking goes, "we can handle anything else that happens."

This attitude fails to recognise that much of the present prosperity can be attributed to the devaluation of sterling two years ago which, because guaranteed prices are set in European currency units, had the effect of most sterling farm prices by about 20 per cent – an advantage not enjoyed across the rest of the EU. The other reasons for UK farmers being better off than expected at present have been kind weather, good yields and shortfalls in the harvests of other countries.

One subject that does raise fears for the future, however, is the enlargement of the EU. Not that which has already occurred, for the farmers of Finland, Norway and Austria – as well as Sweden (if that country decides to join) – are known to have been supported at significantly higher levels than those in the existing EU and their produce will not, therefore, undercut that in member states. It is the old communist bloc that causes greatest concern and the fear that low-priced farm products from those countries could be allowed unrestricted access to newly-unsupported western European markets.

To most farmers the possible threat from eastern Europe remains something of a mystery. That it is vast is well appreciated; that it may have enormous agricultural potential is the fear. And recent reports of ways in which that potential is already being unlocked by international entrepreneurs increases the level of apprehension.

A German friend of mine, Christof graf Grote, who has interests in farms in Norfolk, western Germany and the old East Germany, told a farming conference last week how he and a partner had also taken a 12-year lease on a block of land in Ukraine. The rent was half that for comparable land in the UK, he said, "and the potential is absolutely staggering".

He told, too, how he was enjoying similar success in eastern Germany. Indeed, he had already decided that the way to maximise his income from the German land was to ship the grain he grew there direct from the farm to mills in the UK.

All of which sounds intensely threatening to British farmers who lack the business and linguistic skills necessary to operate internationally. But do isolated instances like that, which rely almost entirely on western management and capital, indicate that eastern European agriculture is an imminent threat to that in western Europe? Having myself visited several of the countries concerned in recent years, my assessment is that they do not pose such a threat, at least for several years to come.

Moreover, a recent report by the NFU appears to support my view and, incidentally, in spite of his personal successes, that of Christof graf Grote. For although some areas in some of the countries in eastern Europe do have unrealised potential, the majority have severe climatic disadvantages compared to the UK and most of western Europe, suffering from long cold winters and hot dry summers.

Even more significant are the cultural, capital and political problems, which will take many years to resolve. Corruption is widespread, inertia is endemic. It takes a brave man like Christof graf Grote to tackle them. Meanwhile, the new democratic governments of many of the former communist states are busy recreating small farm structures more appropriate for the last century than for the next.

As always, there are exceptions that prove the rule. Labour-intensive crops like cherries and soft fruit for processing are already coming into the EU from some eastern European countries, undermining the prices and profits of UK producers. Such trade will doubtless continue to be the subject of lobbying by specialist producers.

For mainstream commodities like cereals, however, I cannot believe that eastern Europe will pose a serious threat for 10 or perhaps 20 years. Meanwhile, western European farmers will legitimately try to ensure that when the former communist countries join the EU they do so on terms that are fair to those of us already here and do not skew the agricultural production base from west to east.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1840-1	1861-2
Previous	1862.5-3.5	1884-5
High/low	1844.5	1877/1853
AM Official	1844.5-5	1864-4.5
Kerb close		1853-4
Open int.	261,261	
Total daily turnover	47,710	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1855-60	1880-2
Previous	1845-55	1880-90
High/low		1880/1875
AM Official	1843-52	1873-82
Kerb close		1870-3
Open int.	2,794	
Total daily turnover	339	

■ LEAD ($ per tonne)

Close	668.5-9.5	684-4.5
Previous	672.5-3.5	687-8
High/low	674/673.5	687/681
AM Official	673-3.5	685-6
Kerb close		683-4
Open int.	44,098	
Total daily turnover	6,140	

■ NICKEL ($ per tonne)

Close	7420-30	7540-5
Previous	7480-90	7590-600
High/low	7456/7455	7630/7620
AM Official	7456-60	7570-5
Kerb close		7510-20
Open int.	71,239	
Total daily turnover	10,705	

■ TIN ($ per tonne)

Close	6150-60	6240-50
Previous	6225-35	6320-5
High/low		6340/6190
AM Official	6240-50	6330-40
Kerb close		6200-10
Open int.	20,611	
Total daily turnover	4,611	

■ ZINC, special high grade ($ per tonne)

Close	1151-2	1172-3
Previous	1157-8	1178-9
High/low		1182/1168
AM Official	1151-2	1172-3
Kerb close		1169-70
Open int.	108,800	
Total daily turnover	24,787	

■ COPPER, grade A ($ per tonne)

Close	2710-1	2687-8
Previous	2734-5	2693-4
High/low	2730	2710/2682
AM Official	2731-3	2693-4
Kerb close		2683-4
Open int.	224,079	
Total daily turnover	62,068	

■ LME AM Official £/$ rate: 1.6167
LME Closing £/$ rate: 1.6160

Spot:1.6184 3 mths:1.6154 6 mths:1.6132 9 mths:1.6109

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Nov	125.05	-3.05	125.80	124.95	1,307	143
Dec	124.05	-2.65	126.10	123.60	40,793	10,654
Jan	123.05	-2.45	124.45	124.45	824	4
Feb	122.05	-2.30	-	-	589	7
Mar	121.15	-1.85	122.50	120.60	10,060	1,731
Apr	119.70	-1.55	-	-	708	6
Total					62,996	13,014

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	382.90-383.20	
Opening	383.30-383.70	
Morning fix	383.20	237.099
Afternoon fix	382.70	236.790
Day's High	383.30-383.70	
Day's Low	382.30-382.60	
Previous close	383.80-384.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.59 6 months 5.23
2 months ....4.68 12 months 5.63
3 months 4.95

Silver Fix	p/troy oz.	US cts equiv.
Spot	323.25	522.75
3 months	328.10	530.25
6 months	333.05	537.60
1 year	345.65	556.15
Gold Coins	**$ price**	**£ equiv.**
Krugerrand	385-388	238-241
Maple Leaf	393.20-395.65	-
New Sovereign	90-93	56-59

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Nov	382.1	-1.4	-	-	24	24
Dec	383.3	-1.4	384.2	383.1	85,129	17,749
Jan	385.0	-1.4	-	-	-	-
Feb	387.0	-1.4	387.8	386.8	21,291	2,151
Apr	390.7	-1.4	391.5	390.7	9,811	147
Jun	394.4	-1.4	395.2	394.8	10,455	895
Total					165,464	2,798

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	412.7	-6.1	417.0	412.5	18,010	1,428
Apr	417.3	-6.1	421.0	418.5	4,641	135
Jul	422.0	-6.1	-	-	1,803	3
Oct	427.1	-6.1	-	-	499	2
Jan	430.1	-6.1	-	-	10	-
Total					24,963	1,568

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	157.85	-3.40	158.75	157.50	4,505	272
Mar	159.45	-3.50	160.75	158.75	2,767	54
Jun	160.45	-3.50	-	-	465	-
Sep	161.20	-3.50	-	-	31	-
Total					7,768	326

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

Nov	518.7	-5.6	-	-	-	-
Dec	520.5	-5.7	525.0	518.5	13,331	71,773
Jan	523.1	-5.7	528.0	525.0	1	85
Mar	529.0	-5.8	533.5	528.0	1,218	20,935
May	534.9	-5.9	538.5	534.5	555	4,904
Jul	541.1	-6.0	546.0	539.5	53	4,238
Total					114,325	15,266

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	18.49	-0.27	18.84	18.46	85,294	47,453
Jan	18.28	-0.23	18.57	18.26	80,762	31,320
Feb	18.12	-0.19	18.36	18.10	38,588	10,847
Mar	18.04	-0.14	18.06	18.00	26,087	5,176
Apr	17.97	-0.12	18.10	17.95	18,261	1,978
May	17.94	-0.09	17.94	17.90	12,232	809
Total					399,513	110,638

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	17.25	-0.49	17.70	17.20	71,145	29,643
Jan	16.81	-0.32	17.12	16.75	61,545	20,471
Feb	16.62	-0.26	16.85	16.60	22,616	6,449
Mar	16.52	-0.21	16.67	16.52	13,094	3,075
Apr	16.44	-0.20	16.55	16.44	5,045	775
May	-	-	-	-	3,052	60
Total					188,280	61,581

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	50.55	-0.45	51.05	50.40	44,797	12,407
Jan	51.00	-0.56	51.60	50.95	35,247	5,640
Feb	51.60	-0.41	51.70	51.50	22,041	1,573
Mar	51.25	-0.36	51.40	51.25	12,076	1,129
Apr	50.30	-0.51	50.30	50.30	7,767	631
May	50.11	-	-	-	4,889	271
Total					163,473	22,490

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	152.00	-2.00	153.50	152.00	19,612	7,903
Dec	154.25	-2.00	155.75	154.25	30,543	6,510
Jan	155.75	-2.00	156.75	155.75	20,982	1,915
Feb	157.00	-2.00	157.75	158.75	9,255	604
Mar	158.75	-2.00	157.00	156.75	7,493	570
Apr	155.00	-1.75	156.50	155.00	3,323	271
Total					101,390	17,686

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	1.785	-0.071	1.830	1.785	27,779	9,188
Jan	1.955	-0.047	2.000	1.965	19,149	3,223
Feb	1.943	-0.027	1.960	1.940	13,658	1,455
Mar	1.895	-0.017	1.910	1.895	12,505	965
Apr	1.850	-0.012	1.860	1.850	7,280	581
May	1.855	-0.014	1.860	1.855	6,481	331
Total					135,275	18,840

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	57.85	-0.87	58.60	57.50	30,925	10,431
Jan	56.25	-0.78	57.00	56.20	18,336	5,094
Feb	55.60	-0.66	55.75	55.60	7,231	1,690
Mar	55.90	-0.80	56.00	55.80	4,178	191
Apr	59.30	-0.60	59.35	59.30	4,901	20
May	58.15	-0.44	58.20	58.15	1,948	31
Total					70,974	18,219

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	103.80	-0.80	104.25	104.00	639	28
Jan	105.00	-0.90	105.50	105.00	1,591	82
Mar	107.00	-0.85	107.30	107.10	1,814	25
May	109.00	-0.85	109.20	109.00	1,616	77
Jul	111.10	-0.85	-	-	125	-
Sep	94.30	-1.20	94.50	94.50	40	7
Total					6,461	267

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	390/6	+1/2	391/4	385/4	34,942	7,005
Mar	402/0	+1/4	402/4	395/0	25,553	3,686
May	380/0	-0/6	383/0	375/4	4,308	387
Jul	344/6	-2/2	346/0	343/0	10,569	1,221
Sep	349/6	-2/2	350/0	347/0	290	2
Dec	360/0	-2/4	360/4	359/4	153	2
Total					76,182	12,313

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	218/4	+0/6	217/0	215/4	112,218	17,620
Mar	228/2	+1/2	228/6	226/6	65,579	4,440
May	235/6	+1/2	236/2	234/4	28,301	2,039
Jul	241/0	+1/0	241/4	239/4	34,272	3,029
Sep	245/4	+1/0	246/0	244/4	3,084	312
Dec	250/2	+1/0	250/4	249/0	14,699	613
Total					267,899	27,621

■ BARLEY LCE (£ per tonne)

Nov	99.95	-0.45	-	-	49	-
Jan	102.45	-0.40	-	-	484	-
Mar	104.95	-0.80	-	-	130	-
May	106.25	-1.25	-	-	46	-
Sep	91.50	-0.50	92.00	91.50	5	10
Nov	94.15	-	-	-	-	-
Total					716	10

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	554/6	+4/4	556/0	549/0	11,971	11,637
Jan	566/0	+4/0	569/4	559/4	50,302	28,830
Mar	579/4	+3/6	578/4	570/6	28,070	3,925
May	584/2	+4/0	587/4	578/6	12,911	1,271
Jul	590/2	+4/0	594/4	584/6	21,320	1,557
Aug	592/6	+3/6	596/4	589/0	1,700	56
Total					142,394	47,367

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	27.17	-0.07	27.49	26.96	38,645	12,569
Jan	26.21	+0.05	26.55	25.90	19,609	6,187
Mar	25.31	+0.04	25.62	25.15	14,477	3,782
May	24.81	+0.02	25.05	24.65	13,995	2,563
Jul	24.45	-0.01	24.70	24.32	7,765	1,252
Aug	24.35	-0.03	24.50	24.25	1,881	329
Total					101,223	27,437

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	160.3	+1.0	160.8	159.5	37,957	5,850
Jan	162.3	+1.4	162.8	160.6	19,571	4,621
Mar	166.6	+1.4	167.0	164.9	16,536	4,336
May	170.7	+1.6	171.1	169.2	6,346	777
Jul	175.6	+1.4	176.2	174.1	9,036	1,248
Aug	177.1	+1.6	177.8	176.0	1,450	116
Total					99,741	16,427

■ POTATOES LCE (£/tonne)

Mar	105.0	-	-	-	-	-
Apr	239.5	+1.0	242.0	238.0	1,391	260
May	250.0	-	-	-	-	-
Jun	250.0	-	-	-	-	-
Total					1,391	260

■ FREIGHT (BIFFEX) LCE ($10/index point)

Nov	1793	+38	1776	1765	254	25
Dec	1704	+24	1700	1680	338	77
Jan	1650	+35	1658	1630	1,652	22
Apr	1528	+22	1523	1515	895	36
Jul	1438	+21	-	-	132	-
Oct	1450	+6	-	-	7	-
Total					2,868	160

	Close	Prev
BFI	1841	1848

Tea
There was a strong general demand, reports the Tea Brokers' Association. Landed good liquoring Assams met keen competition and were generally 10 to 20p dearer but plainer sorts were barely steady. Bright and medium east Africans were well supported at fully firm to dearer rates. Ceylons were about steady. Offshore: good demand at fully firm rates. Quotations: best available 185p/kg, good 144p/kg, good medium 124p/kg, medium 114p/kg, low medium 90p/kg. The highest price realised this week was 186p/kg for an Assam pd.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	932	-16	943	927	15,973	2,467
Mar	957	-16	968	952	42,268	4,206
May	965	-18	974	961	14,858	496
Jul	976	-15	985	976	6,418	451
Sep	992	-14	1005	989	12,786	669
Dec	1008	-14	1020	1008	9,610	258
Total					111,831	8,727

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1278	-29	1300	1273	18,709	6,627
Mar	1310	-21	1332	1312	31,210	5,316
May	1341	-19	1356	1340	6,332	787
Jul	1365	-18	1372	1365	3,485	832
Sep	1388	-17	1390	1390	1,501	110
Dec	1418	-17	1430	1430	5,076	70
Total					75,410	14,826

■ COCOA (ICCO) (SDR's/tonne)

November 4	Price	Prev. day
Daily	980.73	981.16

■ COFFEE LCE ($/tonne)

Nov	3408	+53	3415	3385	601	86
Jan	3439	+31	3452	3428	12,570	1,725
Mar	3400	+22	3415	3384	8,291	380
May	3370	+32	3384	3360	3,239	433
Jul	3346	+31	3360	3355	1,339	65
Sep	3335	+5	3330	3350	1,520	33
Total					27,678	2,774

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	183.80	+0.80	184.25	181.40	10,385	5,620
Mar	188.00	-0.55	189.30	186.60	11,964	2,260
May	191.15	+0.15	191.75	189.30	5,378	422
Jul	192.75	-	193.25	191.50	1,768	190
Sep	194.00	+1.00	194.75	193.00	1,000	71
Dec	194.25	+1.10	-	-	919	68
Total					31,662	8,631

■ COFFEE (ICO) (US cents/pound)

November 4	Price	Prev. day
Comp. daily	174.22	173.09
15 day average	181.58	181.92

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jan	13.00	-	-	-	90	-
Mar	13.47	+0.42	-	-	569	-
May	13.53	+0.15	-	-	450	-
Jul	13.38	+0.25	-	-	-	-
Total					1,100	-

■ WHITE SUGAR LCE ($/tonne)

Dec	371.50	+6.80	371.80	365.50	2,590	501
Mar	363.60	+6.20	363.60	357.30	8,658	1,506
May	358.80	+6.10	358.30	353.50	3,210	1,031
Aug	350.80	+3.80	351.00	347.70	2,754	492
Oct	325.30	+2.70	325.00	324.30	1,467	105
Dec	329.90	+3.70	325.00	324.50	17	10
Total					18,127	3,780

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	13.27	+0.08	13.36	13.13	102,178	4,590
May	13.20	+0.07	13.26	13.15	28,238	1,322
Jul	13.14	+0.06	13.18	13.10	17,252	575
Oct	12.50	+0.04	12.56	12.47	15,330	489
Mar	12.08	+0.04	12.18	12.11	2,389	154
May	12.08	-0.04	12.12	12.12	107	73
Total					168,587	16,427

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	73.25	+1.45	73.70	71.70	22,689	3,060
Mar	74.73	+1.52	74.95	73.10	17,086	1,533
May	75.70	+1.40	75.80	74.10	6,861	388
Jul	76.35	+1.35	76.35	74.90	4,319	61
Oct	71.15	+0.80	71.10	71.00	905	4
Dec	70.10	+0.73	70.30	69.35	2,968	59
Total					64,649	5,692

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Nov	106.50	-1.60	108.05	105.40	518	87
Jan	109.75	-2.40	112.45	109.00	14,809	1,120
Mar	113.60	-1.90	116.00	112.25	5,373	323
May	116.90	-2.05	118.50	116.00	1,622	313
Jul	119.50	-2.30	119.75	119.75	911	1
Sep	122.85	-2.30	125.25	123.00	1,042	440
Total					25,799	2,412

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Nov 7	Nov 4	month ago	year ago
2103.6	2098.8	2061.0	1617.3

■ CRB Futures (Base: 1967=100)

Nov 4	Nov 3	month ago	year ago
233.52	233.92	229.17	219.65

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	69.675	-0.750	70.550	69.650	30,433	4,190
Feb	69.175	-0.150	69.500	69.025	21,388	1,589
Apr	69.650	+0.025	69.850	69.300	14,814	1,723
Jun	65.500	-	65.575	65.300	5,122	545
Aug	64.250	-0.200	64.500	64.250	1,534	63
Oct	65.600	-0.100	65.150	65.000	280	17
Total					73,886	8,139

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Dec	32.700	-0.700	33.875	32.600	17,945	2,141
Feb	35.550	-0.100	35.900	35.000	8,376	1,450
Apr	36.925	-0.025	36.975	36.525	4,948	422
Jun	42.350	-0.150	42.400	41.800	2,264	209
Jul	42.050	-	42.250	41.925	451	39
Aug	38.800	-0.150	38.800	38.600	384	36
Total					38,052	4,343

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	41.200	-0.625	41.750	40.900	8,062	922
Mar	41.400	-0.450	41.850	41.000	1,239	112
May	42.390	-0.400	42.600	42.350	312	14
Jul	43.400	-0.400	43.500	43.150	335	10
Aug	42.400	-0.450	-	42.300	77	6
Total					10,018	1,067

LONDON TRADED OPTIONS

Strike price $ tonne	— Calls —		— Puts —	
■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1825	84	122	60	67
1850	72	110	72	80
1875	61	98	85	112
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
2600	130	127	46	114
2650	109	105	65	140
2700	83	85	89	169
■ COFFEE LCE	Jan	Mar	Jan	Mar
3400	230	323	191	323
3450	206	305	217	356
3500	186	288	247	388
■ COCOA LCE	Dec	Mar	Dec	Mar
925	17	70	10	38
950	8	57	24	50
975	2	46	45	64
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
1650	86	63	5	49
1700	39	38	11	73
1750	19	36	38	105

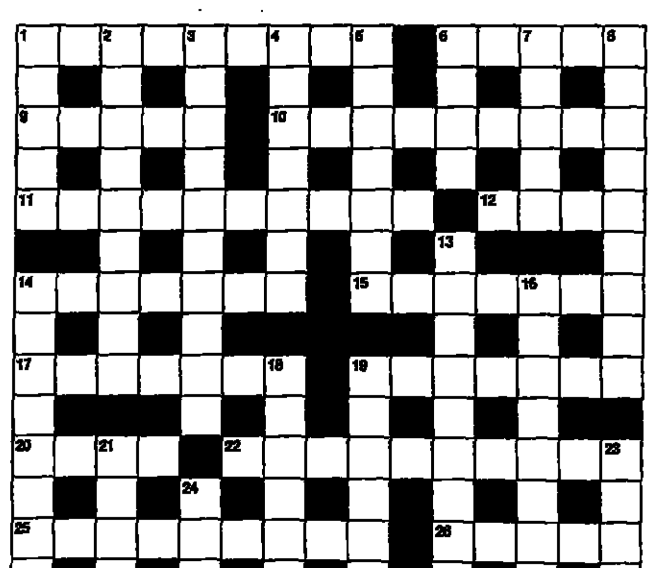
LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Dec)		+or-
Dubai	$15.87-5.94z	-0.415
Brent Blend (dated)	$17.53-7.55	-0.48
Brent Blend (Dec)	$17.23-7.25	-0.44
W.T.I. (1pm est)	$18.30-8.32z	-0.535
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$177-180	-3.0
Gas Oil	$155-156	-1.0
Heavy Fuel Oil	$100-102	
Naphtha	$170-171	-2.5
Jet fuel	$181-182	-1.0
Diesel	$161-162	-2.5
Petroleum Argus. Tel. London (071) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$383.05	-0.95
Silver (per troy oz)♣	524.5c	-5.0
Platinum (per troy oz.)	$413.00	-2.75
Palladium (per troy oz.)	$158.00	-2.00
Copper (US prod.)	133.0c	+0.3
Lead (US prod.)	40.75c	+0.30
Tin (Kuala Lumpur)	15.66r	-0.20
Tin (New York)	266.0c	-5.5
Cattle (live weight)†	115.60p	-0.07*
Sheep (live weight)†♦	96.69p	+2.57*
Pigs (live weight)	74.29p	+3.06*
Lon. day sugar (raw)	$326.60	+0.30
Lon. day sugar (wte)	$370.50	+0.50
Tate & Lyle export	£316.00	-1.00
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	Unq.	
Wheat (US Dark North)	Unq.	
Rubber (Dec)♥	86.25p	
Rubber (Jan)♥	86.75p	
Rubber (KL RSS No1 Jul)	340.5m	+0.5
Coconut Oil (Phil)§	$695.0v	-5.0
Palm Oil (Malay.)§	$690.0z	+15.0
Copra (Phil)§	$445.0v	+15.0
Soyabeans (US)	£154.0v	
Cotton Outlook'A' index	75.75c	
Wooltops (64s Super)	440p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. v Oct/Dec. z Nov/Dec. u Oct/Nov. x Dec. † Nov. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♦ Sheep (Live weight prices). * Change on week. ⊕ Prices are for previous day.

CROSSWORD

No.8,605 Set by CINCINNUS



ACROSS

1 A letdown as big line is let out (9)
6 Fruit, second-rate but sound (5)
9 Some car-manufacturing city (5)
10 Animal that's roamed about in arid surroundings (9)
11 White-hot tin going down (10)
12 Carry out expecting a fall (4)
14 Islamic leaders responsible for state shipbuilding (7)
15 Whip in swell company (7)
17 Root for base rate cut (7)
19 Government leader was grating. Is that understood? (7)
20 Sign of approval for credit (4)
22 Plane sailing or floating by at sea (6,4)
25 For the auditor frivolous ornament is a recurrent theme (9)
26 Divert Clio, say (5)
27 Cause of fermentation when put in still (5)
28 Symptom of fear in veteran after start of conflict (4,5)

DOWN

1 Greek version of Room At The Top (5)
2 Many captured by one unknown killer (9)
3 Landlord's job: providing consistent environment for Nag's Head (10)
4 Exponents in cubes (7)
5 Land bases (7)
6 Like a piper's pedicure? (4)
7 University's wise custom (5)
8 Female's male making bid for yen (9)
13 Instrument in city, or English in France (3,7)
14 Cover with which I agree? Very well (9)
16 Professional cut out to have children (9)
18 Prudent law enforcers endlessly import information technology (7)
19 Lucrative in France, in old France (7)
21 Porcelain for the Cockney's mate (5)
23 Deal with free entertainment (5)
24 Leave out some with hearts (4)

Solution to Saturday's prize puzzle on Saturday November 19.
Solution to yesterday's prize puzzle on Monday November 21.

FINANCIAL TIMES SURVEY

INTERNATIONAL FUND MANAGEMENT

Tuesday November 8 1994

Barry Riley, Investment Editor, analyses the testing conditions faced by investors after the interest rate rise in February imposed by the US Federal Reserve

Flexibility the rule in volatile markets

Last winter it seemed that everybody was setting up hedge funds. In rising markets the willingness to leverage aggressive positions through the future markets can pay off spectacularly. But, since February, conditions have been much more testing, and quite a few hedge funds have come to grief.

The deterioration of investment conditions in 1994 might seem odd given that the global economy has improved considerably – at any rate, outside Japan. But strong economic growth – which globally has probably reached 3½ per cent, and may go higher next year – generates a rising interest rate trend which is an old enemy of the securities markets.

In fact, most of the weakness has been in the supposedly less volatile bond markets. At the extreme, the US Treasury benchmark 30-year long bond has lost about 20 per cent of its value this year as the yield has jumped from 6.3 to a peak of more than 8 per cent. In contrast, in equities the FT-Actuaries World Index has actually *climbed about 6 per cent when* measured in dollars, although Japanese investors see it rather differently, because the World ex Japan index in yen has declined by 13 per cent.

Equity market movements have presented something of a mirror image of the 1993 pattern. Whereas last year the two biggest markets, the US and Japan, which account respectively for about 33 and 28 per cent of global capitalisation, *were the most sluggish, and* were shown a clean pair of heels by many European and third world markets, in 1994 Tokyo and Wall Street have held up comparatively well.

Where are these global investment shifts decided? According to Technimetrics, which compiles institutional investor databases, Tokyo had the biggest concentration of equity holdings at the end of 1993, at $1,160bn, but London moved into second place with $881bn, surpassing New York's $657bn. Switzerland, adding together the different centres such as Zurich and Geneva, was roughly of the same size.

Of course, these figures largely reflect domestic holdings. Rankings on the basis of foreign equities only are different, with Tokyo and New York dropping back, but London and Switzerland emerging as crucial players.

The year's turning point came quite early, with the quarter-point dollar interest rate rise imposed on February 4 by the US Federal Reserve.

Although the increase was expected it triggered a spectacular crash in bond markets worldwide. Stock markets have been struggling to avoid contagion, not always with success.

The scale of the crash in bonds has raised serious questions about the structure and stability of the global securities markets. *At the top of the* boom last winter bonds were taking what has proved to be an excessively optimistic view of future interest rates and inflation; in other words, they were affected by a speculative bubble.

That the market fell is, with hindsight, not surprising; but why was there such a *sharp* tumble? The common theory is that the rise in short-term interest rates, with the threat of more to come, panicked hedge funds and bank proprietary traders into unwinding leveraged positions, which were being financed through short-term borrowings at 3 per cent on the scale of possibly hundreds of billions of dollars.

For instance, Albert Edwards, global strategist at Kleinwort Benson, has estimated that US banks may this summer and autumn have started offloading $200bn of bonds into a weak market, to make room for a revival in bank lending to the private sector.

A slightly different theory has been put forward by William Sterling, of Merrill Lynch, who argues that non-Japanese investors borrowed some $120bn in Japanese yen at only 2 per cent in the second half of 1993, mainly to finance securities market positions. The sudden shock faced by these speculators was not the *widely-anticipated* rise in dollar interest rates but the *unexpected* fall in the exchange rate of the dollar, which had been forecast to be a strong currency in 1994.

Other explanations have been put forward relating to distortions within the mortgage-backed securities markets which led to a sharp bond sell-off once short-term rates turned. Certainly the mortgage-backed securities market has been a great disaster area of 1994, and Kidder Peabody, one of its leading promoters, has suffered dismemberment and sale by its parent General Electric.

The fact that such different arguments can be advanced (and there may be truth in all of them) shows how poorly documented the flows between global securities markets are at present. The lifting of capital controls by many countries over the past few years has encouraged cross-border flows but the monitoring is poor. Now the rapid development of derivative markets is speeding up the movements of capital and is *encouraging speculation* which appears to be sometimes destabilising. But there is only patchy information about what is going on.

However, the global strategy team at Barings Securities led by Michael Howell has painstakingly built up the picture of global equity flows. They have uncovered an extraordinary if erratic growth in cross-border investment, rising from an average of about $30bn a year in the late 1980s to a peak $188bn last year. The main influence behind this growth has been a jump in US outflows from negligible levels until 1988 to $43bn in 1991 and $85bn last year.

A significant international diversification campaign by US pension plans is the main explanation – although there has been rapid expansion in overseas specialist mutual funds too. Greenwich Associates, the US pension consultants, *found in a survey* of pension plan sponsors that the average fund had doubled its exposure to overseas assets to 8 per cent in the three years up to the end of 1993, and, moreover, that the proportion was expected to hit 12 per cent by the end of 1996.

Emerging markets have proved a strong attraction for investors in the US and elsewhere in the developed world. Third world economies are often *growing very strongly* – at 5 to 7 per cent a year, at least twice as fast as the developed countries.

International investors *owned emerging market* equities worth $200bn at the end of last year, according to Baring Securities, amounting to about 15 per cent of their total cross-border holdings. In less favourable conditions the flow of $61bn to emerging markets last year will not be repeated in 1994, but the total could still approach $50bn.

Bond investors, however, are in a much less active mood. Japanese investors have suffered such serious currency losses over the past few years that they are refusing to recycle liquidity generated by the Japanese balance of payments surplus into overseas bond markets, as they were much happier to do in the late 1980s.

Bond investors in general have retreated to their lairs. For instance, whereas foreigners bought a third of the net issuance of UK government bonds in 1993, this year the overseas buyers have melted away.

The result has been a sharp rise in government bond yields *around the world and* increasing talk of a global capital shortage, because developed country governments are still borrowing enormously, while the flows being diverted into the emerging markets are becoming highly significant.

For hedge funds that got these movements wrong the consequences have been dire. For instance, the Dorje and Vaja funds run out of London by David Weill (but based offshore) have halved in value from $1.2bn this year and are being wound down. Last spring the group of US hedge funds run by David Askin collapsed, *victims of the debacle in mortgage-backed* securities.

On the other hand, the large movements in various markets have in theory offered *considerable opportunities* to those who have got it right with focused strategies, for instance by leveraging positions in coffee or metals, or chasing hot emerging markets such as Brazil. But it has been easy to get things wrong, too, especially the dollar exchange rate, which has proved an expensive trap for many a dollar bull this year. Global investment managers have had to display enormous flexibility in adjusting to the different market climates in 1994. But they can derive some modest satisfaction from the fact that the politicians are starting to complain about the power of international money, notably in imposing ever-higher interest rates in government bond markets.

Money talks, and the global money managers are making their views known.

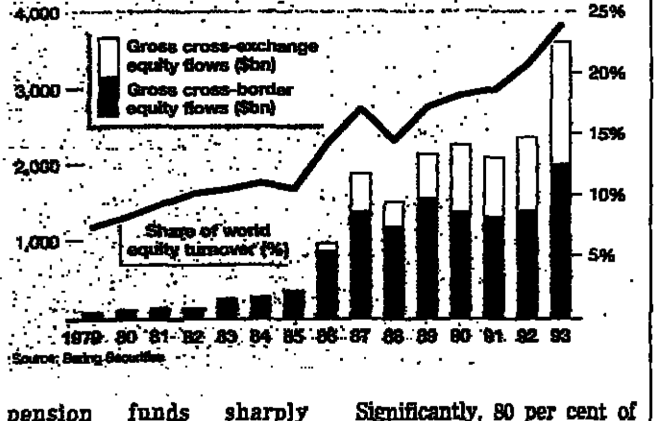
Editorial production: Roy Terry
Illustration: Mark Thomas

Globalisation: **Norma Cohen** reports

Funds pour into equities

If there is any trend which has characterised the fund management industry in the past year, it is the extent to which investors of many nations are prepared to invest money abroad.

"There are five major pension markets in the world," said David Salisbury, chief executive of Schroder Capital Management International. "They are Japan, the US, the UK, Canada and Australia. Perhaps with the exception of Japan, all are seeing an increase in international investment."



Source: Baring Securities

Personal investors buying mutual funds *have also shown* great enthusiasm for faraway markets. European investors have long been international in their approach, but the past two or three years have seen an unprecedented wave of buying by US investors of international specialist mutual funds, often with an emerging markets bias.

All of these investment flows are heavily tilted in favour of equities, a trend which is having a profound effect on the business flowing through stock exchanges around the world.

"One of the single most important trends for the UK securities industry is the willingness of US fund managers to invest abroad," said Alan Yarrow, managing director at Kleinwort Benson Securities.

According to InterSec Research Corp, a US-based investment consulting firm, US pension funds sharply increased their international holdings to 7.4 per cent of all assets by the end of 1993, up from 4.7 per cent the year before. Overall, the value of US pension assets invested outside the country rose 69 per cent to $260bn by the end of 1993 and a further $22bn was invested abroad in the first half of 1994.

The biggest beneficiaries of this trend may well be UK-based fund managers who have been investing up to 25 per cent of the average UK balanced pension fund portfolio in foreign equities. US fund managers *have been slow to* develop the expertise to meet the newfound interest of schemes based there.

According to InterSec, at the start of 1993, out of 15,000 US fund managers, only 200 had any significant expertise in international investment.

Significantly, 80 per cent of the outflow in the first half of this year has been into equities, a switch from the initial US diversification abroad which led fund managers largely into bonds.

Meanwhile, the flow of foreign money into the London markets, the worldwide centre for international share trading, is having a profound effect on the way intermediaries do business. Earlier this year, the Securities and Investments Board, the City's chief regulatory watchdog, issued a discussion paper asking whether there is a need for a greater level of pre- and post-trade transparency. In particular, the SIB asked whether rules allowing delays in publication of large blocks of shares were fair to investors. In the US, rules

Continued on page VI

INTERNATIONAL FUND MANAGEMENT II

Emerging markets: **John Pitt** analyses the fall and the recovery this year

Latin America leads the way

A classic case of volatility has marked the performance of the world's emerging markets during 1994, after a period of phenomenal, if not reckless, growth during 1993.

The story of the markets so far this year has, more than ever, been intertwined with the movement of US interest rates. In common with financial markets everywhere, they suffered a sell-off in February as the US Federal Reserve took the investment community by surprise by lifting interest rates.

However, the recovery during the third quarter has been almost as fast as the fall in the first quarter with many of the markets now at or, in some cases, even above levels at the start of the year.

According to the International Finance Corporation's index of emerging market indices, the revival has been led by Latin America, while Europe's emerging markets – Poland and Turkey in particular – have dragged their feet following explosive growth in 1993.

Turkey's case history stands as an example of the risks attached to investment in these markets. After a rise of more than 200 per cent in dollar terms during 1993 the country's financial markets came under a wave of selling as its foreign debt rating was downgraded in mid-January and the Turkish lira collapsed against the dollar. This was soon accompanied by a rise in inflation – into triple digit figures for the first time in 14 years – hitting an annual rate of 117 per cent in May. The market made a partial recovery during the summer, as the government introduced an austerity package, but at the end of the third quarter the market was still down 45 per cent in dollar terms on the year to date, according to IFC data.

The role of US institutional investors has been crucial this year in determining the direction of emerging markets. According to NatWest Markets in London US funds have the pivotal role in terms of international financial flows, with US pension funds estimated to have assets in the region of \$3,500bn while mutual fund assets stand at around \$2,000bn. During 1993 US funds invested overseas generally and in emerging markets in particular at an unprecedented rate: NatWest estimates that net new cash sent abroad from the US doubled in 1993 – to some \$270bn – but was drastically cut back in the first few months of this year.

Mark Mobius, of Templeton Emerging Markets Fund, which has some \$7bn invested in this area, suggests that the prospects for the markets over the next six months are generally good but have become "more complex and difficult to ascertain. While a number of markets have moved up substantially and have recovered from the decline in the early part of the year, many are overpriced. This, added to a great number of new issues coming into the market at relatively high prices, could create problems of excess liquidity in some of the markets".

John Chew, of GT Management Asia based in Hong Kong, makes a distinction between dollar block and non-dollar block emerging economies. Given the unsettled state at the long end of US bonds, and the likelihood of further rate rises there, he is negative on those countries closely tied to the US dollar, which includes most of south-east Asia and much of Latin America. By contrast, he is positive on, for instance, India, Pakistan, Korea and Brazil.

He thinks Brazil – which is among the best performing of the world's emerging markets so far this year – has a lot further to run following the election of Fernando Henrique Cardoso as president in October, although, in common with other analysts, he expects a sell-off during this quarter as profits are taken and as negotiations on the budget get under way.

Latin America has certainly emerged as the favoured region for fund managers in 1994. Barings Securities, which also compiles an index of emerging markets, has the regional component up 20 per cent in dollar terms over the year to date.

NatWest Markets estimates that "the proportion of US funds heading into the region rose to 77 per cent in the second quarter from 14.5 per cent in the first three months of the year. A number of large Brady bond deals will account for part of this abnormally large percentage, but the sheer scale of the flows gives an indication of US investors' continued commitment to the region".

LatInvest, the Latin American securities house, notes that this year Latin America has been perceived as a region to be a better hedge against rising US interest rates than south-east Asia, partly based on the argument of its greater dependence upon rising commodity prices.

However, they add, this has not been the only reason for the strong performances seen in Peru and Chile, as well as Brazil, this year. "The markets are reflecting the benefits accruing to these countries of a fundamental restructuring of the economy," says LatInvest.

Of Peru, which has a market capitalisation of just \$5bn compared to Mexico's \$200bn and Brazil's \$100bn, James Capel's emerging markets team, concurs, believing that the economy shows good growth prospects helped by a revival in the mining sector which accounts for some 5 per cent of GDP.

Nevertheless, in common with Argentina, elections next year are likely to act as a significant drag on performance in the short term.

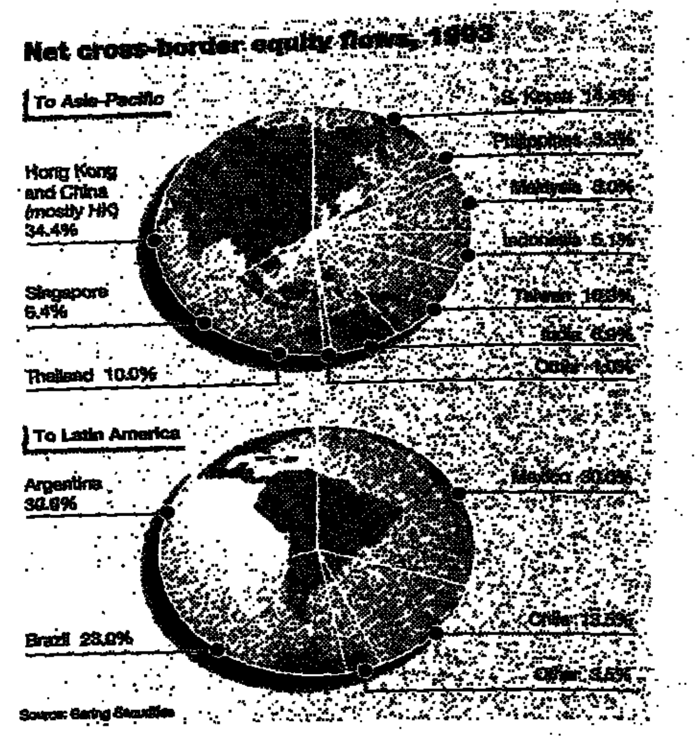
Although the Asian region as a whole has been a laggard this year in terms of performance, the third quarter saw a recovery from the low levels experienced earlier in the year. India, Pakistan and Sri Lanka are favoured among fund managers, based on economic strength and a more stable political framework.

Of the three, India – with a market capitalisation of about \$173bn – has confirmed the promise for strong growth expressed by some fund managers at the start of the year. This is illustrated by a 25 per cent gain in the local index. Some analysts believe the index, currently at 4,300, could hit 5,000 by the year-end driven by improved company results and a good monsoon.

Equity flows to emerging stock markets (US\$bn)

	1986	1987	1988	1989	1990	1991	1992	1993
Latin America	0.20	0.43	0.72	6.98	9.89	11.15	9.64	20.00
Pacific Rim	3.43	6.03	2.45	3.36	3.89	4.73	10.87	40.13
Other	-0.29	-0.58	0.30	-0.27	-0.62	-0.10	0.68	2.23
Total	3.34	5.88	3.47	10.07	13.16	15.78	21.19	62.36
Pacific Rim excluding Hong Kong and Singapore	0.70	1.27	0.58	1.42	1.51	0.85	5.00	23.00

Source: Baring Securities, CrossBorder Analysis



Benchmarks and performance measurement: **Barry Riley** reports

Statistical jungle needs standards

The rapid expansion of global investment management, covering a wide variety of geographical markets, has highlighted the need to standardise performance measurement.

In the past, performance measurement has too often been a statistical jungle in which every management firm has claimed to have outperformed against some sort of index or other benchmark over some period or other. Allegedly "typical" portfolios have been presented as indicative of actual client experience.

Industry-wide historical performance figures have been visibly flattered by so-called "survivor bias" as the records of poorly-performing discontinued funds have been dropped from the databanks.

In the extreme cases, longer-term performance histories have been cobbled together out of claimed records of different funds, often managed by particular teams which may even have moved between different firms. These stitched-together records are apparently known by measurement buffs as "Frankenstein" figures.

Attempts are now being made at a clean-up. Last year, in the US, the Association for Investment Management and Research published its performance presentation standards. This move followed closely on the introduction of a voluntary pension fund investment performance measurement code in the UK.

Now the European Analysts' Federation (Effas) has decided to set up a permanent commission on performance measurement, headed by Dugald Eadie, until recently the chairman of the World Markets Company (WM), one of the two main performance measurement specialists based in the UK.

Effas felt that there was a need for a European initiative in this area. By building on the work of the AIMR and the promoters of the UK code it might be practical to develop global standards, without too much wasteful duplication.

Mr Eadie is hoping to propose a working programme by early next year and, perhaps ambitiously, to develop a set of global standards by the end of 1996. It could take much longer, because developing a global code will require a struggle with basic cultural differences.

In the US, the problem has been seen as largely an ethical one, in that portfolio management firms – typically quite small – operating in a competitive environment will be tempted to manipulate performance data in their commercial favour.

Hence the emphasis on presentation, because the provision of performance data to consultants and prospective clients is a crucial element in the marketing activities of US money management firms.

In other countries, however, competitive bidding for mandates is often less of an issue, but reporting to existing clients and controlling risks may be more so. On the technical side, questions about the treatment of income, taxation and currencies are also bound to loom quite large.

According to Mr Eadie, who is moving his own job from measurement at WM to a marketing responsibility at the London fund managers Henderson Administration, measurement standards are driven by the marketing process in each country. "The issue hasn't even arisen in Japan because there is no competitive market for fund management there," he says.

In the global arena the development of relevant securities market indices is particularly important for performance measurement. Indices are required as benchmarks against which managers can compare their achievements. However, the global markets represent a constantly moving target.

For example, the growth of the emerging markets has prompted the committee which controls the FT-Actuaries World Index to expand the 24-country index series to include Brazil and Thailand. But this introduction has been delayed for a month until the beginning of November because of the difficulties faced by managers running global index funds in making their initial investments in Brazil.

Similar difficulties can arise in bonds. Salomon Bros and JP Morgan, which both produce widely-followed World Government Bond Indices, upset certain fund managers two years ago when they introduced Italian bonds to their indices.

Not all investors considered that Italian government paper was of true investment quality, a doubt which was mollified by the 1993 bond bull market but which has recently once again resurfaced as Italian bond yields have headed back towards 12 per cent.

The problem of over-dominant indices is an increasing source of concern to fund managers. The indices were designed to measure portfolios, but too often it now works the other way around, with the managers slavishly chained to the indices.

The global equity indices do, however, offer flexibility, being constructed on a building block basis, so that different subsidiary indices can be easily extracted. The Morgan Stanley Capital International series is the longest-established and is especially widely followed in the US.

The capitalisation weights in these indices cause constant problems, however, especially in the case of Japan, which at one stage in the late 1980s represented more than 40 per cent of the FT-A World Index and still accounts for some 30 per cent. Thus the World ex US Index has an exposure of 45 per cent to Japan, representing a dangerous concentration of risk.

Some global funds have dabbled with GDP weights, in an attempt to reflect basic economic realities rather than financial valuations, which can be distorted.

Another option is to use equal weights, although this may be difficult in practice to the smallest markets where liquidity is restricted and dealing is difficult.

Still another approach, seen particularly in the UK among pension funds, is to adopt a peer group benchmark. According to WM, the overseas equity portfolios of UK pension funds currently have a 23 per cent weighting in Japan, much lighter than the World ex UK capitalisation weighting of 33 per cent.

In practice most UK fund managers assess their risks against the performance of other similar funds rather than against the World Index. According to WM, the overseas equity portfolios of UK pension funds outperformed the FT-A World Index by 14 per cent in 1993 (but with Japan relatively firm they will have substantially underperformed it so far in 1994).

Was this 14 per cent excess return a good performance, or did it reflect extravagant risk-taking? This is the kind of tricky conceptual challenge that global performance measurement has to help answer.

INTERNATIONAL FUND MANAGEMENT III

Derivatives: a younger generation is proving less conservative, says **Richard Lapper**

Signs of a growing acceptance

Incredulity can sometimes be the reaction when life insurance executives or pension fund managers are asked about their use of derivatives – instruments such as swaps, futures and options whose value is "derived" from more conventional financial assets.

"They are not real assets are they?" is how the chief executive of one of the UK's leading life insurance companies puts it. Institutional fund managers have been slower to accept the potential uses of derivative instruments than the treasurers of large international companies, most of whom actively use swaps and options to manage their exposure.

Fund managers have been inhibited in their use of derivatives for a number of reasons:

■ Pension fund trustees can sometimes restrict the use of derivatives, limiting managers in their use of options.

"They tend to take the view that they are happy to use futures for asset allocation and options for hedging purposes – often they are keener to buy rather than sell options," says Trevor Robinson, former director of derivatives at Fidelity International.

■ Fund managers can be put off the illiquidity in certain derivative instruments. The majority prefer to build up their portfolios through picking the shares of companies which they know rather than buying index-based instruments which reflect the market as a whole.

■ In addition, most tend to measure their performance in relative rather than absolute terms, being more worried about their performance relative to that of rivals rather than the achievement of any absolute return. This adherence to benchmarks has sometimes discouraged innovation.

■ Bad publicity linked to the corporate losses through the use of derivatives this year has been one of the factors leading to a low take-up by retail customers of derivative-linked funds. Fidelity International decided in September to withdraw its futures and options funds from the market, for example. Although a number of building societies and life companies have successfully launched guaranteed funds, which use options as a principal plank of their portfolio, fewer fund managers have launched pure derivatives products.

Despite these factors there are signs that UK fund managers are gradually overcoming instinctive caution and traditional conservatism about the use of derivatives. Partially this reflects cultural factors, as a younger generation of fund managers comes to prominence.

At the same time the industry's regulatory framework has been modified in a number of ways, easing restrictions on the use of derivatives. The European Union's third life directive was implemented in the UK earlier this summer, radically redrawing the regulatory framework under which life insurance companies operate.

Under the earlier regime rules governing valuation and measuring solvency were highly restrictive and fund managers were virtually prohibited from holding derivatives in unit-linked funds. The change has followed an overhaul of rulers in the unit trust area in 1991 – which paved the way for both futures and options and geared futures and options funds, as well as allowing some limited use of derivatives (mainly for hedging purposes) in standard securities funds. At the same time, the Inland Revenue clarified its treatment of derivatives transactions by pension fund managers in 1992.

Two surveys published earlier this year indicated the scope for increased activity. Buchanan Partners, the London-based quantitative investment management firm, conducted a survey of 166 pension funds in January. Buchanan found 57 per cent of the overall survey used some form of derivatives, with funds in the range between $251m and $500m more likely to use derivatives than any other smaller or larger group. One third of derivatives users used performance as a reason or their use. A similar portion used derivatives to reduce risk or volatility. About half used derivatives to protect their investment portfolios, while four fifths of users deployed derivatives to tactically allocate assets.

Many in the industry expect this use to grow, partially because derivatives allow managers to allocate assets very cheaply. A fund manager wanting to switch a part of his investment from UK to US equities would typically sell UK equities and then over a period of time buy US stocks. Using derivatives to conduct the same strategy fund managers would sell the futures contract in the UK and buy the futures contract in the US, saving on transaction costs.

KPMG Peat Marwick, the accountancy firm, in a survey published in May this year, discovered that half of a sample of 50 UK life companies used derivatives for either portfolio management or product design. The larger life offices, in particular, have long used derivatives for hedging and asset allocation purposes and, more recently, to match FT-SE-linked products.

Life companies also made some use of equity options and futures, with 40 per cent of the companies in the survey – mainly with-profits offices and mutuals – currently using equity options. "This probably reflects the use of call options to pre-invest cash flows and the need for such offices to protect their equity portfolios against sharp falls in value," said the report.

Rupert Yardley, the author of a report, expects life companies to increase their use of derivatives. Following regulatory changes in the summer four out of every five companies said they intend to use the instruments in the future.

A large majority of the companies believed there was a significant opportunity to design new products and derivatives could be the key to offering products with guarantees.

Competitive pressures within the life industry, including the wider development of unit-linked products, could also act as a spur to push fund managers to use derivatives.

Mr Robinson also expects the use of derivatives to increase, in spite of Fidelity's recent decision. Fund managers are also likely to make more use of options, either to hedge their exposures or to develop specific products. He says fund managers should build up their positions slowly and advises them to "remember that they do not need to commit the entire fund to using derivatives."

Global custody: **Norma Cohen** looks at facilities in emerging markets

Rush to find new opportunities

While there has been considerable interest in investment in Russian securities recently, there is a small problem.

In Russia, it seems, if a broker wishes to buy shares on behalf of a client, he has to visit the company whose shares he wants to buy.

When he returns to his office, another problem emerges: where can the securities be kept? International investors have little confidence in the ability of domestic institutions to safeguard securities.

"You fly in airplanes to get the securities and then you fly them out again," explained Robert Binney, business executive at Chase Manhattan Bank's global securities division.

Chase is considering applying to become the first global custodian to operate in Russia, a move which is likely to facilitate investment there significantly.

The tale of Russia's non-existent global custody business illustrates the extent to which investment is dependent upon the availability of information reporting, securities safekeeping and payment systems in different markets and instruments.

Those who doubt the extent to which international investment is dependent upon an efficient custodial network need only look at India where, earlier this year, frenetic foreign investment ground to a halt as local custodians collapsed under the weight of paper.

Efficient custody services are essential to the ability to conduct foreign investment

In January, the three custodians servicing the Indian market called a halt to their servicing of new clients and set limits on trading volumes of existing clients as they struggled to catch up with a backlog of paper generated by the surge of more than $1bn in 1993.

There, a largely paper-based system designed for the needs of retail investors who buy as few as 10 or 100 shares at a time sagged under the weight of institutional investors wanting to buy in lots of 100,000 shares per bargain.

The Indian government has introduced the "jumbo" share certificate to meet the needs of professionals, but the system is still creaking. John Lee, partner at Lee Schwartz Associates (LSA), consultants specialising in custody arrangements, says that his figures show that as of the third quarter of 1994, three out of four of all trades in India failed to settle on time.

"Any custodian or fund manager with any sense of fiduciary duty towards his clients should tell them not to invest in India right now," he said.

Without a doubt, fund managers say, the availability of efficient, safe, cost-effective custody services are essential to the ability to conduct foreign investment. Custodians have been well aware of this need and are rushing to find new markets where investors have yet to make their mark.

"Overseas investment is a growth business," Mr Binney said. "There will be more, not less business for global custodians. We are going to see further geographic expansion in the Commonwealth of Independent States (CIS) and Africa as well as in places like Vietnam where US firms have been forbidden to invest," he predicted.

Broadly speaking, the custody business entails not only the traditional "master trust" function of securities safekeeping, but also fund valuation and performance measurement, foreign exchange dealing, cash management, derivatives safekeeping and valuation, and, perhaps most significantly, stock lending. It is this last core service which is proving the most lucrative to custodians, particularly when the securities are loaned across international borders. And in emerging markets where settlement delays are most likely to arise, the demand for loaned securities is greatest.

This makes it likely that even though volumes in some emerging markets are low relative to those in developed countries, the potential profits are great.

In January, three custodians found it a struggle to catch up with a backlog of paper — Picture: Tony Andrews

"This business is really all about global asset servicing," said Michael Grass, head of Barclays' custody services in Europe and Africa. As investors become more sophisticated, they are likely to make greater demands on their custodians to deliver information and other services more quickly and cheaply, he said.

Barclays, which has a significant presence in the UK market, is capitalising on its presence in Africa, an emerging market where few other global banks have any significant market share.

Consultants note that in many emerging markets, there are only one or two principal providers of custody services and any investor who is not normally a client of that custodial bank must enter into some sort of sub-custodial arrangement. For instance, the Latin American market is dominated by Citibank and by Bank of Boston while custodial services for Pacific Rim markets are dominated by Hong Kong and Shanghai Bank.

Clients who are unhappy with the services of a monopoly provider have few options to switch.

Meanwhile, Barclays' Mr Grass predicts, the requirement for investment in information technology by custodians in each market is so great that instead of competing with each other head-on, custodians are likely to form alliances. "They will say 'we'll provide one service in this country and you provide another service and we will face the market together'," Mr Grass said. Thus, institutional investors entering new markets are unlikely to find that fierce competition will allow them to achieve services at razor-thin margins as it has in the US and, increasingly, in the UK.

Another problem, custodians say, is that there is a very wide range of legal arrangements between custodians and sub-custodians and between clients and sub-custodians and there is a good deal of legal ambiguity about the obligations of each.

Even worse, there are significant variations in the service that sub-custodians provide for different clients, according to Richard Schwartz of Lee Schwartz Associates. LSA, together with a US-based consultancy, GSCS, produces performance indices for custodial and sub-custodial services in important markets. Mr Schwartz notes that there are several factors which could account for disparate performances among disparate client accounts, including the ability of each client's counterparties to complete their own paperwork on time.

Bonds: **Conner Middelmann** discusses the effects of the bear market

Choppy conditions likely to continue

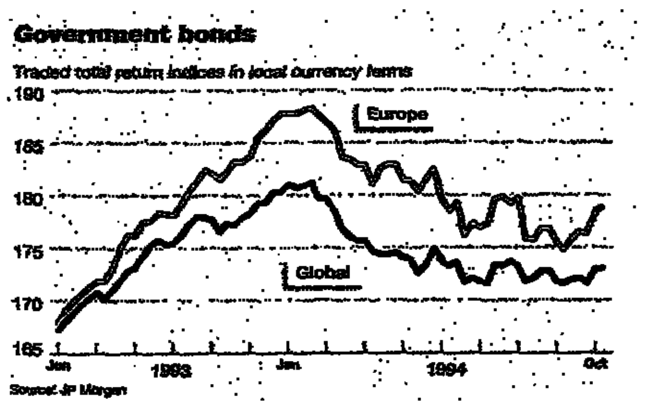
The year 1994 will not be easily forgotten by fixed-income fund managers.

It started out promisingly enough, at the height of a global bond rally which had driven yields close to their historical lows. Expecting bond-positive *fundamentals* to continue into 1994, the majority of fund managers went into the new year holding long positions in most markets – an error many spent the rest of the year scrambling to rectify.

"We haven't come out of this year in flying colours as an industry," *says* Peter Flynn, a director of the fixed income group at Fleming Investment Management. "Many fund managers were like rabbits *caught* in the headlights," he says. he added: "The majority got it plain wrong: many thought Europe would decouple from the US market and continue to outperform, but that didn't happen."

After the spectacular bull run in 1993, the market's fortunes turned abruptly in early February when the US Federal Reserve raised interest rates *for the first time in the current* cycle, raising fears of inflation fuelled by economic growth. Further pressure came from the failure of US-Japanese trade talks, which undermined the dollar – contrary to widespread *expectations for a* strengthening US currency. Both of these factors triggered heavy selling by highly leveraged bond market operators, *causing prices to spiral lower*.

"The mother of all bond rallies turned into the mother of all bear markets," sighs one portfolio manager.



In this environment, many investors fled *to the sidelines*, reducing their exposure to a minimum. But while investor demand for bonds was shrinking, supply was swelling *through* heavy debt issuance by governments around the world. Moreover, huge amounts of supply which had been issued in 1993 and placed in loose hands flooded back to haunt the market.

All this pushed bond yields – nominal and real – to dizzy heights, where, it was hoped, they would eventually lure investors back into the market. *Although this appears* to have begun in recent weeks, many investors remain reluctant to launch a bold comeback.

Indeed, many fund managers got their fingers so badly burnt *that they are likely to keep a* very low profile between now and the end of the year.

"As we get closer to year-end a lot of investors will just sit on their hands," *says* Paul Campayne, bond strategist at *Paribas* Capital Markets. "It's been a bad year for investors, and I think a lot of them will prefer to stay out than take any more bets."

JP Morgan's Global Government Bond Index, which many fund managers track as their performance benchmark, has shed 4.1 per cent in the year to *mid-October, after rising* by 14.5 per cent in 1993. The European index *has* been even more volatile, dropping by 5 per cent so far this year after gaining 20.6 per cent last year.

However, many fund managers appear even to have underperformed *their benchmarks:* according to data compiled by Micropal, an independent data provider, investors who put their money in UK unit trusts *investing in* gilts *and international* bonds have lost an average 10.77 per cent (including charges) in the year to October 17.

While there have been few success stories, there has been *successful damage control*, especially by the lucky few who reduced their bond market exposure early on.

"We felt everything had got *hugely carried* away last year and were very nervous for a large part of 1993, so we scaled back our exposure during the year – if anything, we came out too early," *says* Gerard Wherity, director of fixed interest at Abbey Life.

This year, *Mr Wherity says* he concentrated on core markets in Europe, *US Treasuries* and Japan and avoided some of the more peripheral markets.

The higher-yielding peripheral markets, including Scan*dinavia and southern Europe*, were particularly badly hit during the sell-off. During the 1993 rally, they were boosted by yield-hungry investors seeking yield pick-ups over the core markets which had already *become very expensive*. But after sentiment turned they got hammered as investors refocused on these countries' fiscal and political concerns.

Cash also proved a safe haven during the worst of the sell-off, says *Mr Wherity*. "At some points in the first half of the year we had more than 50 per cent in cash." He says he started running down cash positions from mid-year, bringing cash holdings down to around 14 per cent in mid-October – the lowest it's been *all* year.

However, although he feels there is scope for a *sizeable bounce*, he says it is hard to predict where the markets will go next. "I have no faith in all the economic arguments for a bond rally – that's all crystal ball-gazing. We will simply wait and see how *things develop and take it* from there."

In the next 18 months, as Europe's economies continue to grow, fears of inflationary pressures will remain on the boil and interest rates are expected to rise across Europe. This is likely to spell continued choppy conditions for the bond markets, although some expect volatility to ease.

"This year saw the transition from falling to rising interest rates, and the market was split *among those* who expected rates to ease further and those expecting them *to rise*," *says* Ian Donald, a fund manager at Lazard Investors. "Next year will see a much clearer trend as far as interest rate expecta*tions go – the question* now is not whether rates will rise, but only by how much," *he says*, adding that he expects markets to be less volatile as a result.

But how can bond fund managers, who are essentially bull-market professionals, *prosper* in an environment where interest rates are *rising?*

Basically, they will have to refine the way they take bets on *interest* rates. "*Once* you see you're in a bear market, you have to get more creative and sophisticated," says Fleming's Mr Flynn.

This means that, rather than looking for markets where rates are falling (which causes *bond* yields to fall and prices to rise), fund managers need to identify markets where interest rates are changing. With the help of sophisticated *investment* tools and strategies, they can take advantage of these changes, no matter the direction in which rates are going. This may include structured products, for instance bonds with embedded options, *sophisticated derivatives strategies*, and active yield curve management – both on spreads between different countries' yield curves and along one particular *curve*.

Some of these strategies can be quite conservative, but while they may limit the portfolio's upside, they certainly protect its downside – which will endear fund managers to their clients at times when the going gets tough.

"If you get it right, it won't knock the lights out of your portfolio, but will allow you to outperform *incrementally*," says Mr Flynn.

Currencies: **Philip Gawith** discusses the problems facing fund managers

Dollar's plight hits investors

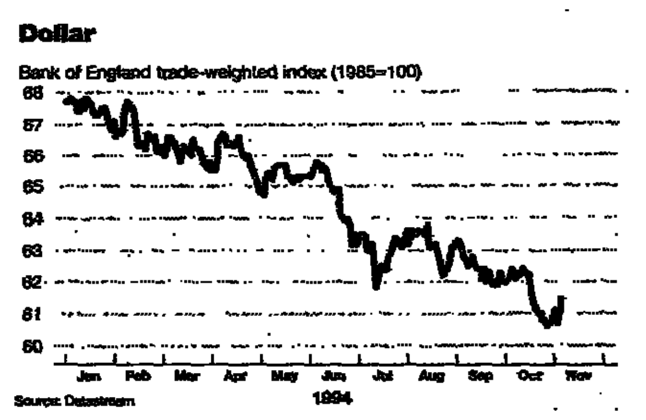
In fund-manager folklore, 1994 is likely to be remembered as the year of the great bond market massacre. *For many, though, attempts to* get a handle on the currency markets, and the US dollar in particular, will have been equally chastening.

On October 25, *the dollar* was touching a new post-second world war low against the yen, of Y96.40, and a two-year low against the D-Mark of DM1.4853. *Back at the start of* the year, though, it had stood at Y113 and DM1.74, with most analysts and investors expecting further appreciation, on the back of rising growth and interest rates in the US.

If the dollar's plight has been a source of painful grief to investors, it has also been a persuasive reminder of the importance of currencies in assessing returns on an investment decision. It is a trite *observation* that the performance of an investment in an underlying asset, such as a stock or a bond, can be either totally negated, or significantly augmented, by the behaviour of the currency in which the investment is made.

This fact gives rise to the need to hedge exposure to currency risk. Or, for braver spirits, to take the investment process a stage further by engaging in currency overlay strategies. This allows the investor to create a currency exposure which may be completely at odds with the underlying asset exposure.

As an example, Philip Saunders, director of Guinness Flight, notes that in their global fixed income fund, they have a 65 per cent European bond weighting, but the currency exposure is *about 50* per cent dollar, with a further 15 per cent in the New Zealand dollar, the Australian dollar, the Singaporean dollar and the Malaysian ringgit. In terms of European currencies, the weighting is primarily towards sterling and the lira.



Mr Saunders comments: "We have these weightings primarily because we think European bonds are cheap and we think the dollar is cheap." At Guinness Flight, the currency decision is not separated from the underlying asset decision. An integrated approach is taken, in the belief that similar considerations come into play when composing an international bond portfolio and taking a view on a currency.

This is by no means the universal approach. Graham Cox, group economist at Sun Life, notes: "As a rule we separate the currency and the country. We hedge the currency risk *partially, sometimes wholly*, if we have an expectation of significant exchange rate risk. It has to be large, and for a fundamental economic reason."

Explaining the same approach at Legal and General, David Shaw, head of strategy, comments: "The economic fundamentals that drive currencies are not the same set that drive the bond and equity markets." The decisions are taken "separately but simultaneously".

Reflecting the visceral aversion which those people managing trust monies have to being branded speculators, Mr Shaw stresses that they have not reached the point of taking bets purely on a currency. "What we do is currency management, and it is the currency management of an underlying asset."

Mr Cox says they avoid anything that could be construed as "speculation". But the line between *hedging for fundamental* reasons, and speculation, is a fine one.

Mr Cox's own example makes the point: "The Fed is perceived to be weak, the Bundesbank is seen to be strong. When you get a trend like that it is justified to have a hedge on."

Some fund managers are less shy about actively managing currency risk. Mike Hart manages Foreign and Colonial's investment trust, the oldest such *trust in the world*, with £1.6bn under management. He says they seek to take advantage of currency movements by manoeuvring short-term loans. "We try to finance borrowings in what we hope will be the cheapest currency. We do it on a *fairly* short-term basis, almost week by week. We are constantly rolling over loans."

Avinash Persaud, foreign exchange strategist at JP Morgan in London, notes that currency overlay had its origins in the US. There it has been quite common – though 1994 has been conspicuously different – to find the bond and currency markets moving in opposite directions. The former is dominated by domestic investors, while the dollar is more at the mercy of foreign investors.

In Europe there has been less *scope for currency* overlay, as moves towards economic convergence, albeit with various hiccups, have tended to see currencies and bonds *performing in tandem*.

Two areas which have traditionally attracted less hedging, or overlay, strategies, have been equities and emerging markets. In the case of equities, the rationale for hedging less is that they are real assets, supported by the same economic fundamentals which *would support the currency. In* the case of bonds, by contrast, lower interest rates are supportive, but theoretically bad for the currency.

As for emerging markets, there is virtually no currency hedging, owing to the lack of availability in many markets. But there is a further reason, *as one fund manager* comments: "In nearly all the markets, we invest at a time when the currency is sure to appreciate. If we are not confident of that then we *are not going* to invest. The main economic factors that we are looking for before we invest in a country are likely to lead to an appreciation in the currency over a period of time."

Clearly between equities and bonds, mature and developing markets, and different institutions, currency exposure will be managed in a variety of different ways. Just how differently, however, is a tantalising question. For while there is copious evidence available about the underlying asset exposure of different funds, no equivalent information exists about their currency exposure.

The working assumption often made is that they are simply unhedged but, increasingly, that is clearly not the case.

Commodities: **Richard Waters** reports

Speculators ride high

Are commodities an appropriate antidote to the malaise in bond markets?

While fixed income prices have sagged for much of this year, many commodities – in particular base metals such as aluminium and copper – have *surged. There has* not been such interest in investment circles in everything from oil to gold since the late 1980s.

Commodity prices, a harbin*ger of inflation, often move in* the opposite direction to bond and equity prices. According to a growing number of investment advisers, that qualifies *them as an asset class in their* own right, deserving of a place in pension funds' portfolios.

There is an alternative view. This holds that speculative *investors – in particular hedge* funds – have done much to drive commodity prices higher. According to this argument, the resurgence in commodities has been a self-fulfilling prophecy, creating a bubble in prices which will burst once the speculators withdraw.

The extent of the negative correlation between commodity and long-term US bond prices is put by *JP* Morgan – one of several banks to launch commodities indices recently – at 51 per cent (based on the performance of the components of the bank's commodities index over the past *10* years). The negative correlation with US stock prices over the same period was 36 per cent, Morgan says.

There are a number of caveats. First, it is easier to construct an index to prove a historical point: the direction of prices in the future may not *follow the same pattern.*

Second, many commodities analysts maintain that prices this year have already outstripped the levels justified by the growth of underlying demand from end users.

Metals, both precious and base, may be the clearest case. They account for only around *10 per cent of total* world production of commodities by value (agricultural commodities make up another 43 per cent, and energy the rest). Yet *metals comprise* a *far* larger proportion of many commodity indices, and remain the focus of much speculative interest. Unlike agricultural products, the balance of supply and demand is not affected by *extraneous factors such as the* weather, but is driven largely by industrial demand. As a result, much of the buying by investors is thought to have been *focused* on copper and aluminium, forcing up prices.

Robin Adams of Resource Strategies, a Pennsylvania-based company, argued *that* only $340 of the $600 a tonne rise in aluminium prices this year could be attributed to a growth in fundamental *demand (the metal has since* risen further). It is interest from investors (otherwise known as speculation) that explains the other $260 a tonne.

For those who do decide that *commodities justify a small* corner of their portfolios, the investment *landscape* of 1994 looks very different from that which existed the last time real assets were in vogue. There is a range of new indices against which investment performance *in commodities can be tracked* and a bagload of new instruments to buy – from warrants for retail investors to structured notes whose returns are *based on commodity prices*.

Besides JP Morgan, Merrill Lynch and Bankers Trust have launched commodities indices. All three have followed Gold*man Sachs, which was among* the first in the field.

These indices are very different in their character and behaviour. Some (Goldman) *include agricultural products*, but most do not. A second difference lies in the method of calculation. An index which simply tracks the prices of commodity futures carries with it the leverage that is inherent in futures markets.

To overcome this, the Goldman and Morgan indices use a total return *methodology*. These indices are made up of three components: the change in commodity futures prices; the extra return (or cost) involved in rolling over futures contracts when they expire; *and the return from investing* additional collateral in Treasury bonds.

Not surprisingly, these total return indices have done better in recent years, thanks to the long bull market in bonds. Since 1979, *the commodity* component has generated an average annual rise in the Morgan index of 4.84 per cent. The "roll return" has added an additional 1.22 *per cent a year*, and the collateral return 8.7 *per cent more*.

This highlights the underlying concern of many investors with commodities – and the reason why many will continue to stay away. Real assets, be they bars of gold or downtown office *buildings*, have underperformed paper investments over a prolonged period, short-time price jumps notwithstanding.

Stock markets: **Martin Dickson** discusses prospects for global equities

Tough going for managers

Equity fund managers have found 1994 tough going as global markets have painfully adapted to a *fundamental economic shift* from a world of falling interest rates to one of monetary tightening – or the threat of it – in many western nations.

The big turning point in investor sentiment occurred last February when the US Federal Reserve tightened monetary policy *for the first* time in five years as a cyclical upswing in the American economy gathered strength.

The turn in the interest rate cycle sent US and European bond prices tumbling, and the fixed income market's reversal was accentuated by a liquidity squeeze on speculative traders and a sudden concern that the Fed was doing too little, too late, to stop a resurgence of inflation.

US equities were *inevitably* dragged down by the rising trend of interest rates, as were many principal European markets and some emerging markets – *and for much of the* year stock markets have found it hard to escape the volatile and bearish mood in the fixed income sector.

That said, the correction in the equity markets has been less severe than that in bonds and a somewhat more stable atmosphere in the fixed income sector around the middle of the year underpinned a brief, modest rally in stocks.

The FT-Actuaries World Index stood roughly 7 per cent higher on the year in dollar terms at the end of October, though that advance shrinks to a mere 1.6 per cent once Japan is excluded. Japan's stock market rally since the start of the *year is a mere 8.3 per cent* in yen terms but totals 24 per cent in dollar terms, thanks to the appreciation of the Japanese currency.

The main question now is the extent to which global equity markets can build on this modest advance at a time when two *powerful forces* are pushing the main western markets in opposite directions.

One is rising bond yields, which tend to have a depress*ing effect on share prices, both* because they make fixed income investments relatively more attractive and because they push up corporations' *funding* costs.

The other is economic recovery – which is relatively mature in the US but is just getting into its stride in continental Europe and is likely to produce a strong burst of earnings growth over the next year or two.

An important factor in this tussle will be the future direction of bond prices. While short-term interest rates seem set for a substantial tightening, more bullish analysts argue that long-term bond yields are already discounting far more inflation than is likely to materialise in the main western economies in the near term.

They point out that inflation is *currently very subdued* on both sides of the Atlantic and argue that it will remain modest, despite economic expansion, thanks to factors such as increased productivity and increased global competition. The implication is that long bond yields have reached a plateau, *allowing equity prices to* rise as earnings increase or as bond yields drop.

More bearish analysts argue that inflation will accelerate significantly over the next year or two, due to central bank complacency *in failing* to tighten monetary policy aggressively, and this will continue to exert upward pressure on bond yields and hold back equities.

In particular, they argue that the economic recovery in the US – which tends to set senti*ment in other markets* around the world – is now very mature, and it cannot be long before an eventual slowdown in the growth of earnings is reflected in stock prices.

In the US, the Dow Jones *Industrial Average suffered* a correction of around 10 per cent in the two months following the Fed's February tightening and since then has gradually gained ground, so that at the start of November it stood just 70 points short of its all-time high of 3978.36, reached at the end of January.

As for Europe, the FT-Actuaries World Index for the region showed a mere 3.2 per cent advance in dollar terms in 1994 up to the end of October, with the British and French components slightly down and Germany slightly ahead. The Nordic countries showed a 22.3 per cent advance. The Italian market was up 15 per cent, though that represented a sharp drop from the 40 per cent surge it enjoyed early in the year during the national election campaign.

Many analysts think European equity markets as a whole should do well over the next 12 months, with Germany particularly favoured, thanks to recovering earnings and political stability in the wake of the Kohl government's re-election last month.

Opinions are more sharply divided over Japan, where the equity market gained strongly in the first half of the year as foreign investors anticipated economic recovery. But since then the market has fallen back sharply – despite analysts' forecasts of better earnings in 1995 – as domestic investors have held back. One question is the extent to which the Japanese financial system *and industry still need to be* restructured.

Emerging equity markets have also displayed a very mixed picture over the past year. Many suffered sharp setbacks in the early months of the year in the backwash from the Federal Reserve's February tightening and have spent the succeeding months clawing back a substantial part of those losses.

Substantial outperformers include South Korea, where share prices rose some 30 per cent in local currency terms between the year's April low point and mid-October, helped by a recovering economy and easing of tension with North Korea; and Brazil, where the indices have soared on the back of the government's successful attack on inflation and a national election outcome liked by the financial markets.

Significant underperformers include Hong Kong, weighed down by concern over local property prices, rising US interest rates and rising economic difficulties in mainland China.

Real estate: **Simon London** reports

Deregulation the driving force

The turmoil in bond markets this year has spilled over into most international property markets. While improved levels of economic activity promise good investment returns from property, rising bond yields have taken the shine off the early stages of recovery.

However, cross-border investment in property is often driven more by financial deregulation than any cool assessment of market conditions. *The flows of Japanese,* Swedish and German money into London over the past decade were prompted by regulatory changes which gave the institutions a free hand.

The impact of deregulation is especially powerful when institutions are already riding a wave of liquidity. Thus the deregulation of German open-ended mutual funds coincided with a period of high net investment by retail investors. *Fund managers* had the cash and the regulatory authority to buy *City of* London office blocks. Even though London property prices are now flat or falling – thanks to the drag of bond yields – the flow of overseas money continues.

> *The market went off the boil over the summer against the background of rising bond yields*

According to Jones Lang Wootton, institutional investors bought £1.8bn of central London property during the first nine months of the year. UK investors accounted for only 55 *per cent of this turn*over. Of the overseas buyers, German open-ended funds were the most active.

A similar pattern is seen in *continental European markets.* There is strong investment demand for German property, for example, much of it from overseas. Since development activity was muted in most cities other than Berlin and borrowing costs were falling through the year – at least in terms of short-term interest rates – the German property market has shown strong capital growth.

However, the pattern of supply and demand in individual cities can change quickly. In Berlin, up to 1.5m sq m of office space will be built this year and next. Since take-up *by tenants* was only 200,000 sq m in 1993, there is a real threat of oversupply.

In France, domestic institutions have been concentrating their efforts on the retail sector, partly driven by the need to diversify away from offices. Overseas investors, mostly from Holland and the UK, have also concentrated on shopping centres.

Schroders International Property fund, based in Amsterdam, recently acquired its third French shopping centre, at Amiens in Picardy. Hammerson, the UK company *which recently sold its Austra*lian assets, is also on the lookout for shopping centres in France.

In the US, Atlanta and Washington DC have emerged as the most desirable cities for overseas investors, according to the Association of Foreign Investors in *US Real* Estate (Afire). Atlanta, which was the second most popular destination for overseas investment in 1993, was ranked as the most viable *city* for foreign real estate investment, followed by Washington, New York, Phoenix, and Charlotte.

Afire also refutes claims that Japanese investors have been trying to offload assets acquired in the 1980s.

"There have been rumours that the Japanese *are trying* to sell but no evidence of it," said James Fetgatter, chief executive of Afire, which represents about half the foreign invest*ment in US real* estate. "Japanese investment has remained at the same level for the past four years."

Most of the new foreign investment in US property is coming from Europe. An Afire survey found 46 per cent of respondents planning to increase US holdings, up 14 per cent from 1993.

Property advisers agree that even the most overbuilt cities such as Denver and Boston are *showing signs of recovery.*

The lingering worry for the UK property market is that overseas investors often seem more *enthusi*astic about the opportunities than their domestic counterparts. UK pension funds' average weighting in property is now around 7 per cent, having fallen steadily from a peak of more than 20 per cent in the mid-1970s.

According to second quarter figures from the Central Statistical Office (the latest available) this trend continued. Life insurance companies were enthusiastic buyers, investing a record £2bn in commercial *property during the three* months Yet pension funds were net sellers, shedding a net £246m-worth of property.

Anecdotal evidence suggests *that the weight of life insur*ance company money waiting to come into commercial property started to diminish in late spring. The property investment market was unusually quiet through September and October, traditionally one of the most active periods for institutional dealing.

Fund managers' caution is understandable. The property market went off the boil over the summer against the background of rising bond yields. Rental growth, which would help property detach from bonds, has been slower to show through than many investors hoped.

The net effect has been falling capital values. The Investment Property Databank Index for September showed a drop in capital values after 14 months of upswing.

Just how long investors have to wait before rents start to rise is a moot point. Some agents suggest rents on prime City offices have already started to climb. Richard Ellis pointed to 8 per cent rental growth in the third quarter of the year, with prime City rents rising from £30 per square ft to around £32.50.

Unless there is a huge reversal of fortune in the final weeks of the year, UK commercial property should still out*perform* both equities and gilts in 1994. A total return of around 14 per cent this year should be enough to beat other financial assets.

Europe: **Gillian Tett** looks at the crucial question affecting investments

Pivotal issue is pension plans

If you believe the optimists, Europe could, in the long term, be on the verge of an investment revolution. If you listen to the pessimists, though, the short-term outlook suggests that investment liberalisation across the European Union is still lagging behind many other parts of the world.

Either way, as European fund managers evaluate their long-term investment strategies, few doubt that the crucial question that could shape capital and equity markets in coming years will be the direction taken by Europe's pension systems.

The issue has become increasingly controversial in recent months following the collapse of the European pension funds directive. A pivotal aim of the directive, first proposed by Sir Leon Brittan, the British commissioner, back in 1989, was to create a more liberal investment structure in Europe's pension system, in keeping with the principles of the single market.

Pension systems across the EU are a patchwork of different practices. The UK and Ireland, for example, are dominated by funded pension systems. France's pension structure, however, is based around a "pay-as-you-go" system. Meanwhile, Germany's system is dominated by a book reserve system, in which the pensions liabilities are held on the balance sheet of sponsoring companies.

These different systems have resulted in radically different investment profiles. In the UK, which has relatively few controls over the degree of portfolio diversification, domestic equities accounted for more than half of the pension fund assets in 1993, while international equities represented about a quarter of the assets, and domestic bonds forming less than a tenth.

But in most of the other European countries, the bulk of assets is directed towards domestic bonds, with considerably lower net returns – albeit greater security.

In Germany, for example, legislation stipulates that private pension funds cannot hold more than 5 per cent of their assets in overseas equities. In practice, in 1991 international assets represented less than 1 per cent of German funds, with domestic bonds accounting for some 70 per cent.

Meanwhile, in France, the proportion of assets held in domestic bonds has been steadily increasing, from 53 per cent in 1983 to 62 per cent in 1993, while international investment in equities is non-existent.

The pension fund directive had the potential to radically change this situation by forbidding member states from imposing low ceilings on both the extent of overseas investment and investment in equities. Because UK fund managers have greater expertise in equities and in cross-border investment, they could have a competitive edge in winning mandates under the proposed EU directive.

But though an outline agreement over this directive was in sight by the end of last year, the stumbling block was the question of how far countries could stipulate that pension schemes' overseas assets should be matched with comparable levels of domestic liabilities.

The patchwork of varying practices in the EU has resulted in radically different investment profiles

The liberal "three" of the UK, Ireland and Netherlands – who together account for 93 per cent of overseas pension fund investment in the EU – favoured little, or no restrictions.

Belgium appears to be joining the liberal wing and is preparing to abandon the requirement that at least 15 per cent of assets be invested in domestic government bonds.

But at the opposite end, there was little interest in encouraging pension schemes to invest outside their home borders. Countries such as France demanded a tougher "currency matching" requirement of 80 per cent.

The European Commission sought to reach a compromise level of 60 per cent, pointing out that this should be sufficient even in "liberal" countries such as Britain. (The Frank Russell group in London, for example, suggests that the optimum level for international investment for a British scheme, for example, will usually be between 30-50 per cent).

But, in practice, no agreement was reached, and this summer the directive was scrapped. The Commission insists the initiative is not entirely dead, and says it will still seek to pursue its aims for greater liberalisation by other means. One of these may be taking countries to court to enforce the Capital Liberalisation Directive and other provisions in the Maastricht treaty which prohibit barriers to the freedom of movement of capital. But the legal force of the Capital Liberalisation Directive remains uncertain, since it includes a "prudential requirements" provision which states that liberalisation is only enforceable if there are adequate prudential safeguards for investment across the entire EU.

The events are a blow to many British fund managers, who had been hoping for a captive market for their business across Europe. But how far the demise of directive alone has altered the longer-term development of European investment remains unclear.

On the one hand, cynics point out that even if the directive had come into force it would have been unlikely by itself to have forced much overnight change in the conservative behaviour of continental European pension fund managers, which leaves many of them favouring the security of bonds.

But, on the other hand, irrespective of the collapse of the directive, it appears that many European countries are anyway gradually moving towards pension reforms that may incorporate greater liberalisation and privately funded bias.

The main reason for this is demographic pressures, as the rising numbers of pensioners pose an ever greater burden on the working population. The Federal Trust, a British think tank, for example, calculates that if the current pension system is not altered, public expenditure on pensions over the next 40 years will rise by more than 30 per cent in Belgium and the UK, 40 per cent in Germany and Italy and a staggering 70 per cent in France.

These trends are already forcing some shifts. This summer the French parliament passed a bill allowing for the establishment of private pension funds for the self-employed. Proposals are being considered for wider reforms, though these are unlikely to receive serious consideration until after the French presidential elections next year. And though few observers expect any rapid switch out of domestic bonds into overseas investment, the prospect is creeping on to the agenda.

"The question of investment into equities or bonds is a very big topic at the moment," says one fund manager in Paris.

In the longer term, if countries such as France or Germany do shift towards an Anglo-Saxon model the potential impact would be staggering. Philip Davis, an economist who has previously worked at the Bank of England, for example, believes that if French pension funds were to reach the size of UK funds, they would total $235bn.

The equivalent development in Germany would create $400bn worth of assets, compared to the $355bn total capitalisation of the German stock market.

A shift of this magnitude, Mr Davis concludes, could have a huge significance on global markets. "Heightened volatility and lower returns on equity are among the potential consequences," he says.

Meanwhile, in the short term many British investment institutions are already edging into Europe. Andrew Dalton, vice-chairman of the UK Mercury Asset Management group, for example, says that his group has recently established a presence in Germany to work within the areas of German law which allow them to offer their services, primarily to the corporate sector. "The demand is coming in the market place for the product – it is clearly something that must grow," he says.

US: international equities still attract investors, says **Richard Waters**

Capital flows abroad continue

US investors seem to have passed the first test. Despite steadily rising interest rates at home, the country's mutual and pension funds have continued to channel capital into overseas equity markets through the first three quarters of this year. International bond holdings have wobbled: but the pessimists who predicted a quick reversal of capital flows as the US interest rate cycle turned have been proved wrong.

The second test, though, could prove more challenging: what happens if the dollar's long slide is reversed?

Figures for the first half of this year show that US investors have not lost their appetite for international equities. US pension funds bought a net $17bn of non-US shares in the first six months, compared with $35bn in all of 1993.

Mutual fund investors, meanwhile, had put a net $23bn into international equity funds by the end of August, compared with $26bn in 1993 as a whole (this does not include global funds, which, as the name suggests, buy both US and non-US stocks). To be sure, the enthusiasm of January has not been matched: in that month alone, international equity funds attracted $6.3bn. However, the cash has continued to flow at a steady rate.

It is not difficult to see what has drawn US investment abroad. In dollar terms, the returns from investing in overseas markets have leapt ahead of those available on US stocks. And with their domestic stock market still bumping along close to its all-time high at the end of October, there seemed little to change US investors' minds.

"Until the end of 1992, there were four consecutive years of underperformance outside the US," says Gavin Quill, vice-president of marketing at Scudder Stevens & Clark, a US investment group. In 1993, when US stocks returned around 5 per cent, investors in equity markets elsewhere in the developed world saw double-digit gains: 23 per cent in Japan, 32 per cent in Germany and 19 per cent in the UK.

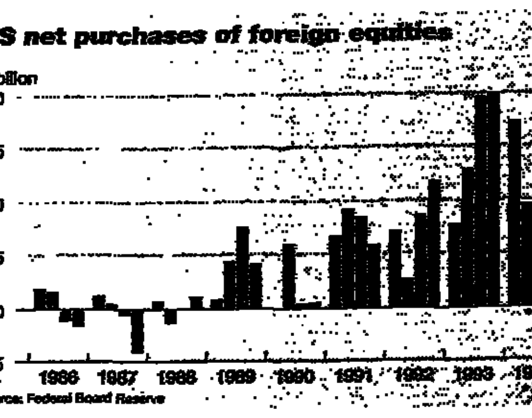
Emerging markets did much better – in part thanks to the flow of US money. Fully a half of all US international equity investment, or some $30bn, is estimated to have been directed into emerging markets last year.

Higher returns on international investment have continued to flow this year, most notably in Japan (up around 30 per cent in dollar terms by the end of October, twice the rise in local currency terms).

Investment returns from international bond funds, meanwhile, have slipped. The volatility in European fixed income markets in particular has made US investors wary, and the appetite for international bonds has waned. Between them, pension and mutual fund investors put only $2bn into international fixed income securities during the first six months of this year. With bond markets falling, the overall value of their non-US bond holdings dropped by $5bn, to $84bn.

There seem to be two messages from all of this. First, US investors' holdings of foreign securities look more like a core part of their holdings than they did even a year ago. From 6 per cent early in 1993, the proportion of US mutual fund assets invested overseas has climbed to just under 10 per cent.

US net purchases of foreign equities



Source: Federal Board Reserve

A second message is that it would take a smaller proportionate adjustment by US investors of their overseas holdings to have a bigger impact, potentially adding to volatility in some markets. "You may see pull-backs that have an impact in certain thin markets for short periods of time," says Mr Quill.

What happens, though, when the dollar changes direction? The greenback's weakness has underpinned the steady international diversification of the past decade. According to calculations by Goldman Sachs, since the end of 1984, when the dollar was riding high, Japanese stocks have only returned 76 per cent in yen terms. But in dollar terms, the return is 342 per cent – compared to a 180 per cent return on US stocks in the same period.

While foreign investments have been doing well, it has been easy for the pundits to maintain that a sea change has taken place in the attitude of US investors: that they now accept the diversification argument that a wider spread of investments leads to higher returns with lower risk.

Losses on foreign investments from a stronger dollar might change all that. "When they're down 10 per cent, then we'll see how globally diverse people really are," says John Hickling, a manager of international funds at Fidelity, the US's biggest mutual fund group. "Over the short term, there is a pretty good correlation between flows into and out of [foreign] funds and the dollar."

It is no coincidence that, at a time when US investors have been buying foreign securities, their international counterparts have shown little interest in US stocks. The same factors have been at work, only in reverse – principally the devaluation of the dollar. Over the past six years, foreigners have been net buyers of US stocks in three years and net sellers in three.

In some ways, the investment losses for US investors implied by a stronger dollar could be mitigated by the lift it could give to foreign markets. A Japanese car maker competing with General Motors both in the US and around the world, for instance, would benefit from a weaker yen.

Japan: **Emiko Terazono** examines investment strategies in the 1990s

Foreign exposure pared down

Takahide Sakurai, head of the Japanese life insurers' association, is frustrated by accusations that the industry is reluctant to invest abroad. "The life insurance industry always seems to be blamed for the yen's appreciation," he says.

Japanese life insurers, the country's main institutional investors who have suffered a sharp fall in unrealised profits on their stock holdings, remain risk-averse in their investment strategies. Over the past few years, they have been paring down their exposure to foreign investments, and have allocated only a minimal amount to the domestic stock market.

The general understanding within the Tokyo financial community has been that institutional investors have had a traditional role of recycling Japan's current account surplus by buying foreign bonds and stocks. But the recent rise in the yen has led to foreign exchange losses, and they have cut investments in overseas financial markets, thus stopping the outflow of capital from Japan.

During the 1980s, the life assurers increased investments in overseas securities with high coupons, especially in US bonds. However, the industry was hit by the subsequent rise in the yen which resulted in foreign exchange losses of around Y4,600bn between 1985 and 1987, which was compensated by the sales of life assurers' securities holdings.

Arguments over the life assurers' influence on the currency market aside, statistics show that in spite of an overall increase in assets of Y3,400bn during the first four months of the current business year, the insurers' sold a net Y1,100bn in overseas securities. Only Y70bn were allocated to domestic equities, Y4,400bn to Japanese bonds.

Mr Sakurai, also president of Dai-Ichi Mutual Life, admits that life insurers remain bearish towards foreign investments. The amount of overseas securities investments at Dai-Ichi has fallen to a third of the peak in the late 1980s. For the industry as a whole, the outstanding balance of foreign securities holdings declined 28 per cent from the peak in 1989 to Y14,047bn, constituting 8.3 per cent of total assets, down from 15.3 per cent.

Unrealised profits on stock holdings (Ybn)*

1988	45,000
1989	34,000
1990	25,000
1991	9,900
1992	9,900
1993	25,000

* Total of top 18 life insurers
Source: Credit Suisse, The Life Insurance Association of Japan

Foreign securities*

Year	Holdings (Ybn)	% of total assets
1988	13,747	14.0
1989	17,986	15.3
1990	17,199	13.1
1991	17,608	12.3
1992	16,892	10.8
1993	14,047	8.3

* Total of top 20 life assurers
Source: Credit Suisse, The Life Insurance Association of Japan

The risk-averse strategy at the insurers stems from the plunge in unrealised profits on their stock holdings following the burst of the asset "bubble". Although their unrealised gains on domestic equities recovered slightly in the year to the end of March, 1994, thanks to a modest recovery in the Tokyo stock market, the level is still substantially lower than the peak reached in 1988. According to Credit Suisse in Tokyo, unrealised gains at the top 18 life assurers for the last business year totalled Y12,500bn, down 72 per cent from 1988.

Without the gains on securities holdings, which have acted as a buffer against losses on investments, the insurance companies remain reluctant to take risks. "In other words, the yen is unlikely to weaken unless the Tokyo stock market rebounds," says one fund manager.

However, some analysts believe that, under the right circumstances, Japanese institutions could increase their investments in US bonds as was done in the 1980s.

Salomon Brothers in Tokyo points out that in October and November last year Japanese residents were net buyers of $20bn in foreign bonds. This coincided with a widening of the yield difference in 10-year bonds and a weakening of the yen. Hence they reason that wide differentials between domestic and US interest rates, signs of stability in the US Treasury market and a stable currency market could induce Japanese purchases of US bonds.

On the other hand, Ms Mami Yoda, analyst at Credit Suisse, says asset allocation at Japanese life insurance companies will remain conservative. "Lower risk assets, such as loans and domestic bonds will be the investment choice for 70 to 80 per cent of the Y13,000bn to Y14,000bn of new money expected in fiscal year 1994," she says.

The introduction of an accounting rule which allows life assurers to carry domestic bonds at the purchase price on their books is also expected to stimulate bond investment. The new method frees the companies from declaring unrealised losses on bond holdings and allows the assurers to focus on the yields to maturity as a measure of their investment.

And, while interest towards emerging markets has prompted some investment in south-east Asia, the overall proportion remains small. Institutions which have lowered the foreign securities portion in their portfolios to around 5 per cent are likely to try to maintain such levels. "Even if the insurers invest in foreign securities, it will probably be in yen-denominated eurobonds," says Ms Yoda.

With financial deregulation increasing the competitiveness of the industry, Japanese insurers will need to improve their fund management strategies, which during the 1980s were dominated by the pursuit of high-yielding investments. Following the burst of the "bubble" economy, risk averse products have been the core of investment strategies in 1990s.

The life insurers have lagged in implementing the concept of asset-liability management, and only started to match assets and liabilities a few years ago. Ms Yoda says more flexible asset-liability management needs to be implemented through the use of derivatives and tailored investment products.

Meanwhile, the companies need to make more objective investment decisions rather than those based on business relationships. Insurance companies have often been the core of cross shareholdings, buying shares to cement business relationships or to help promote sales of insurance policies. These holdings need to be reviewed.

Funds pour into equities

Continued from page 1

require immediate post-trade transparency and American investors have become accustomed to this.

US securities firms are said to have been among the prime supporters for the discussion document, and even the London firms which have traditionally dominated the market say that changes are inevitable.

"We have US clients who tell us they do not want us to book their trade in London when they are buying French shares. They want it booked in Paris so they can see that we are not doing them in."

Also, the penchant of US investors to move large blocks of shares in a single deal has been one of the forces spurring the European bourses to reform their own systems to make block trading easier and cheaper. London has dominated international share trading – data from Lee Schwartz Associates, a consulting firm, show that about a quarter of all the world's equity trades are booked in London, compared with about 20 per cent in New York – partly because of the facility for block trading on the London Stock Exchange's SEAQ International system.

Meanwhile, the explosion in cross-border investment has opened opportunities for fund managers. In particular, a handful of UK fund managers, notably a few Scottish houses, have made great strides in selling their traditional investment expertise in the US.

"I heard a story about a Scottish fund manager who made a presentation to a US pension fund while wearing a kilt," recalled one pension consultant. "He got the mandate."

Several managers such as Edinburgh-based Ivory and Sime, Baillie Gifford and Martin Currie all report significant US pensions business.

However, InterSec notes, US fund managers are closing the expertise gap quickly.

"Because of information technology, it is no longer necessary for a US-based fund manager to have offices all over the world," said Alexe Nowakowski, associate consultant at InterSec.

The growing demand for an international fund management capacity has posed an interesting question for fund managers: is it better to make worldwide investment choices from a central office in London, or should one develop a network of research offices in key markets?

At PDFM, the London fund management arm of Union Bank of Switzerland, the centrist view is taken. "We've made a very strong case for the one-office route," an official explained. "We believe there is merit in having a single culture, a single philosophy." Multiple centres can lead to conflicts between fund managers about the merits of specific markets or stocks, he said.

Kenneth Inglis, chairman of Fleming Investment Management, the fund management arm of Robert Fleming Group, says his firm has a similar philosophy. "If you are running a balanced fund around the world, you like to be able to take the pulse of all markets," he said. If a manager decides to reduce exposure in one market in favour of another, it could be difficult if there is a local office resisting a diminution of their asset allocation.

LONDON STOCK EXCHANGE

MARKET REPORT

Equities weakened by UK/US interest rate fears

By Steve Thompson

A thoroughly depressed UK stock market succumbed to a worldwide mood of negativity yesterday, as international investors looked ahead to the possibility of a further rise in US interest rates within the next two weeks.

London was additionally unsettled by the latest economic data released by the authorities, in the form of industrial production and manufacturing for September, both of which were much higher than had been expected, and were interpreted by some dealers as accelerating the chances of another increase *in UK interest rates.*

At the close of one of the dullest trading sessions for many months, the FT-SE 100 Index looked to have given up the chase, at least in the short term, to launch another determined assault on the 3,100 level, and ended 31.8, or one percentage point, down at 3,065.

But in a clear demonstration of the thinness of trading in the UK equity market, the second line issues put up a much more resilient performance, although they too closed well down on the day, with the FT-SE Mid 250 Index finally 14.5, or half of one percentage point, lower at 3,520.1.

Turnover figures released by the Stock Exchange showed that activity in non-FT-SE 100 stocks accounted for 252.7m shares, more than 63 per cent of the total volume of business in London, which reached a paltry 398.8m, among the lowest turnovers recorded this year.

The rationale behind the market's weakness was apparent before marketmakers began to input their opening prices: Wall Street's near 39-point fall on Friday, after a closer examination of that day's batch of economic news, rekindled fears that inflation could begin to ignite in the US.

Those concerns, mixed in with fears that the congressional mid-term elections in the US could see President Clinton's standing given a thumbs down by the electorate, put increasing pressure on US Treasury bonds in London throughout the day and saw Wall Street give ground. The Dow Jones Industrial Average was more than 10 points lower as London closed.

Senior traders at a number of City broking houses expect the value of customer business transacted in London yesterday to have fallen below the £1bn mark, a worrying prospect for big integrated trading houses which support large dealing teams.

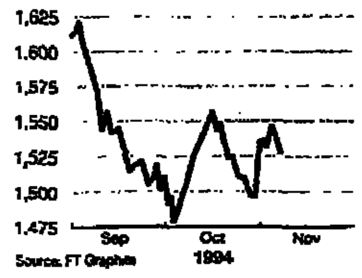
The FT-SE 100 made a poor start to the day, opening more than 20 points lower and meeting minor waves of selling pressure thereafter. What disturbed dealers was an almost total absence of support for the leaders.

"There were few in the City expecting the market to hold up after Wall Street's performance on Friday but, equally, there were not many marketmakers expecting to see London down 1 per cent," said one of the leading marketmakers at a UK securities house. He added: "There is a good chance of the Fed tightening some time next week, and that will keep the market tight for the rest of this week." There was the merest hint in the market that the Bundesbank could ease monetary policy following its fortnightly meeting, scheduled for this Thursday, but most traders dismissed the story as unlikely.

Regional electricity stocks, stimulated recently by the prospect of bumper dividends and a windfall from the sell-off of the National Grid, provided the FT-SE 100's best performer in Southern Electric. BAA, on the other hand, suffered as the market shrugged off the excellent figures and concentrated on the stock's outperformance in recent months.

There was considerable nervousness in British Airways ahead of this morning's interim figures, while Kleinwort Benson was said to have been responsible for weakness in property shares. Oils were upset by renewed selling by US investors.

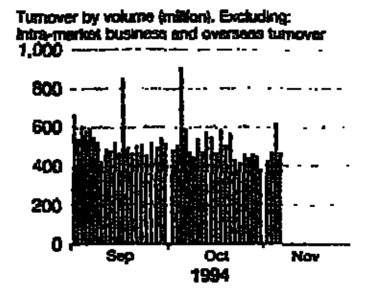
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3065.8	-31.8	FT Ordinary index	2346.2	-25.5
FT-SE Mid 250	3520.1	-14.5	FT-SE-A Non Fins p/e	18.62	(18.80)
FT-SE-A 350	1539.2	-13.7	FT-SE 100 Fut Dec	3061.0	-54.0
FT-SE-A All-Share	1525.19	-12.86	10 yr Gilt yield	8.81	(8.74)
FT-SE-A All-Share yield	3.97	(3.93)	Long gilt/equity yld ratio:	2.23	(2.23)

Best performing sectors

1. Other Services & Bus .... +0.6
2. Engineering, Vehicles .... +0.2
3. Gas Distribution .... +0.2
4. Distributors .... +0.1
5. FT-SE SmallCap ex IT .... -0.1

Worst performing sectors

1. Oil, Intergrated .... -2.0
2. Transport .... -1.7
3. Mineral Extraction .... -1.7
4. Water .... -1.6
5. Telecommunications .... -1.6

Chemical forecast chopped

Chemicals group Courtaulds fell 19 to 440p as one leading broker chopped full-year forecasts by around 12 per cent just two weeks before the company's interim figures.

The move was carried out by UBS, and although the house chemicals analysts were unavailable for comment, rivals said forecasts for the current year and the following year had been reduced by £20m. The existing range of predictions for this year was between £160m and £180m.

UBS had been a long term seller and was believed to have hardened its stance in reaction to the rising price of commodity chemicals, of which Courtaulds is a big buyer. Nevertheless there was some surprise at the timing of the move as the company is currently in closed season and any view would need to have been taken independently.

L & G warning

Life assurance group *Legal & General slipped on* news that the Texas Department of Insurance was fining it $8.7m for mis-selling of policies to pensioners.

The claim relates to Banner Life, L&G's US subsidiary. Analysts said Banner's involvement in Texas represented a tiny part of L&G's overall business, but they were concerned that the case could turn the US spotlight on to a very sensitive area.

Mr Jonathan Sheehan of Credit Lyonnais Laing said: "It does not look particularly material, but in the current climate where the life sector is not in favour it does not help sentiment." Legal shares *receded 7 to 428p.*

Dollar rerating

A re-evaluation of the dollar's potential by one of the big integrated securities houses prompted downgrades and subsequent price weakness in leading earners of US currency.

S.G. Warburg was said to have moved its end-of-year forecast by around 10 cents to $1.65 against sterling and its 1995 estimate to $1.70. Among stocks to be downgraded by the house sector specialists was Cable and Wireless: the forecast for profits for the year to March 1995 came down by £70m to £1.13bn and the following year's estimate by £100m to £1.2bn. The shares fell 8 to 399p in spite of the encouraging reports that the company was anticipating a joint venture with AT&T, the US giant.

BAT Industries shed 2 to 432p despite a buy recommendation from Williams De Broe, Glaxo dropped 12 to 596p and Zeneca fell 10 to 856p.

A follow on from heavy selling in New York saw the share prices of oil majors BP and Shell ignore comforting fundamental news. The combined weakness in the stocks was responsible for knocking 8 points off the FT-SE 100 Index.

The falls of 9 to 416p, ex-dividend, in BP and 9½ to 711p in Shell came in spite of news that the Department of Trade and Industry had granted the two companies permission to start work on the potentially lucrative Foinaven oilfield, west of Shetland and Orkney. The field is expected to produce oil in less than 3¼ years from discovery, compared with an average of 9½ years for North Sea finds.

Interim results at the top end of analysts estimates saw airports group BAA weakened 24½ to 492½p as profit-takers moved in following a sell indication from BZW. The stock, which has been a very strong performer over the past year, was heavily marked down at the outset, with 5.8m traded by the close.

BZW's advice to clients was that BAA had moved into "expensive territory". Over the past year the shares have run some 15 per cent ahead of the market as a whole and outperformed by 5 per cent over the past month.

Ahead of Thursday's second-quarter results, British Airways also lost ground, dipping 5 to 357p. The stock was not helped by the threat of strike action at Deutsche BA, the airline's 49 per cent owned German domestic carrier.

News of the sale of its food ingredients business left drinks group Allied Domecq 7 lower at 591p, with some analysts slightly disappointed with the £265m disposal price. Allied has two other disposals in hand, notably its tea operations, which are said to have an asking price of £300m, and to have attracted Nestlé among potential buyers.

Lonrho continued to gain ground. Up 14 on Friday following the announced departure of joint chief executive Tiny Rowland the shares advanced a further 4 to 148½p. Turnover, at 10m shares, was again heavy.

Hotels and leisure group Forte slithered below the 227p price at which 78m shares were placed on Friday, tumbling 7 to 226½p in turnover of 2m. A sell note from BZW did most of the damage - the investment bank house is unhappy about a longer term potential financing squeeze at Forte. It predicts slowing cash-flow at a time when capital spending will be rising steeply.

Friday's £175m placing was undertaken to finance Forte's *purchase of a big stake in Meri*dien Hotels, a deal that BZW sees as a strong strategic fit. There was talk, however, that the placing had not gone as smoothly as UBS, the group's brokers, would have liked.

Retail sector leader Mark and Spencer dipped slightly in modest volume ahead of today's interim results, slipping 4½ to 409½p with 2.8m traded. Further solid profits progress is expected but most analytical attention will be concentrated on the group's sales trends.

Some estimates for the growth of M&S' cash sales go as high as 8 per cent but 6 per cent is probably nearer the consensus. Anything under 5 *per cent could cast a deep* cloud over the sector since M&S is traditionally seen as the industry belwether.

Boots advanced 4 to 517p on talk of a buy recommendation from a leading marketmaker.

Enthusiasm for the impending flotation of TeleWest, the UK's largest cable company, prompted weakness in the rest of the telecommunications sector. Investors were starting to liquidate assets in preparation and BT, the most easily tradeable stock in the sector, lost 6 to 389p on 9.1m turnover.

Computer group Tadpole Technology rose 20 to 423p after the company announced sales details of a new portable personal computer.

Recently floated Filtronic Comtek gained 5 to 140p, a new high, as Fidelity International declared a 5.9 per cent stake.

A block of 2.1m shares in *Logica, representing around 3.4* per cent of the software company, was placed in the market at 289p. Most of the shares were sold on at 290p and the underlying stock closed a penny firmer at 296p.

MARKET REPORTERS:
Peter John,
Jeffrey Brown.

■ Other statistics, Page 25

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (18).
BANKS (1) Banco Bilbao Vizcaya, DISTRIBUTORS (3) Adam & Harvey, REA, Wilshaw, ELECTRNC & ELECT EQUIP (3) Tadpole Technology, Telspec, Thorpe (F.W.), ENGINEERING (1) Eleco (3), EXTRACTIVE INDS (3) Impala Platinum, Rand Mines, Western Metals, FOOD MANUF (1) Barr (AG), LIFE ASSURANCE (1) Liberty Life Association of Africa, OTHER FINANCIAL (1) [illegible] ...

NEW LOWS (72).
[illegible] ... ENGINEERING (5) Concentric, Hunting 8·5pc Prf., Locker (T) A, MS Ind., Whitman, EXTRACTIVE INDS (2) Orion, St. Barbara, HEALTH CARE (2) Associated Nursing Servs., ML Laboratories, HOUSEHOLD GOODS (3) Cornwell Parker A, Tomkinsons, Wyefield, INSURANCE (1) Heath (CE), INVESTMENT TRUSTS (11) INVESTMENT COMPANIES (1) China & Eastern, LEISURE & HOTELS (3) Artoura 6¾p Prf., Kunick 8¼p Prf., Ladbroke, LIFE ASSURANCE (1) Utd. Friendly B, MEDIA (2) Quarto 8¼p Prf., SelecTV, OIL EXPLORATION & PROD (1) Coplex, OTHER FINANCIAL (1) Exco, OTHER SERVS & BUSNS (1) Leigh Interests, PRTNG, PAPER & PACKG (2) AG, Britton, PROPERTY (6) Chesterfield, Newport, PSIT, Scottish Metropolitan, Southend 8pc Cnv. 2020, Union Square, RETAILERS, FOOD (3) Geest, Nurdin & Peacock, Shoprite, RETAILERS, GENERAL (5) Essex Furniture, Fine Art Devs., Kingfisher, SPIRITS, WINES & CIDERS (1) Merrydown, SUPPORT SERVS (2) Johnson Cleaners, Novo, TEXTILES & APPAREL (2) Coats Viyella, Readicut, TRANSPORT (2) London & Overseas Freighters, Vard AS, AMERICANS (2) Dana, Time Warner, CANADIANS (1) Toronto-Dominion Bank.

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures tumbled steeply in weak trading volume, sliding to a discount to the cash market as heavy selling built in the final hour of the session, *writes Jeffrey Brown.*

The FT-SE 100 December contract was 3,062 at the official 4.10pm close, a decline of 55 points. The discount to cash equities was 4 points, with fair value premium just under 10 points.

Once again there was very *little activity,* and after an initial mark-down the December contract mostly drifted lower in thin trading volume. The day's contracts totalled 8,091, against 11,659 last Friday.

James Capel and GNI were *among a number of biggish* sellers towards the close, and from 3pm onwards there was heavy downward pressure on the cash market.

With the December contract below 3,070 a number of important chart levels have been broken.

Some traders have begun to fear that the market's next move will be down to the 3,000 level.

Traded options turnover was thin at 21,113 lots, but up from the 18,500 traded on Friday. FT-SE and Euro FT-SE *option* turnover accounted for around a third of volume at 8,700 contracts.

Guinness was the most active individual stock option, with 2,013 lots dealt, followed by Lonrho (1,693 contracts) and HSBC (1,033).

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3088.0	3061.0	-54.0	3092.0	3055.0	9250	53820
Mar	3105.0	3080.5	-54.0	3105.0	3105.0	1	3969
Jun	-	3102.0	-54.0	-	-	0	80

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3540.0	3525.0	-35.0	3540.0	3540.0	10	4178

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	3530.0	-	-	-	-	0

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3068) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

[illegible]

FT - SE Actuaries Share Indices — The UK Series

	Nov 7	Day's chge%	Nov 4	Nov 3	Nov 2	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3065.8	-1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	3520.1	-0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1539.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A ALL-SHARE	1525.19	-0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	4	64	3
Other Fixed Interest	0	0	14
Mineral Extraction	35	79	82
General Manufacturers	74	167	394
Consumer Goods	21	57	109
Services	61	117	317
Utilities	10	23	11
Financials	34	141	189
Investment Trusts	22	160	283
Others	16	71	25
Totals	277	879	1427

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	November 7	Expiry	February 2
Last Dealings	November 18	Settlement	February 23

Calls: Anglo Pacific, Jupiter Tyndall, Kunick, Kynoch, Titaghur Jute, Tullow Oil, Utd Energy. Puts: Anglo Pacific, Utd Energy. Puts & Calls: Abbey Nat, Air London, Brit Telecom, Glaxo, Greenwich Res, Utd Biscuits.

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

هكذا من الأصل

هكذا من الأصل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								
SA Brews		210½	+1⅛	218½	210	4,624	1.7	27.2
Tiger Oats	†	588	---	638	535	1,831	2.3	14.6
Tongaat-Hulett	h	675	---	*685	356¼	816.2	1.9	18.8

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ⊕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) UK & Irish incorporated non-listed companies.
- ‖ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on annualised dividend
E Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994.
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1250 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT7498. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Pembroke Hall, Pembroke, Bermuda

Prices for dealing November 11

Jupiter Tyndall (Bermuda) Ltd

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

*Offer price includes of maximum preliminary charge

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

Schroders Australia Ltd

Schroder Aust Sh	A$7.89	8.22	—	-

For Schroder (Switzerland) see Luxembourg (Regulated)

Scimitar Bermuda Funds

Sml Commodity Fd Ltd Jul 31	$8.51	-	—	-
Sgeel Curr Fd Aug 31	$7.69	-	—	-

Scudder, Stevens & Clark Inc

Argentina NAV Nov 4	$14.46	—	-
Brazil NAV Nov 4	$35.80	—	-
First Iberian NAV Oct 28	$9.32	—	-
Invertain Dollar Income Inc	$103.04	+0.02	-
Korea NAV Nov 4	$24.16	—	-
Latin Am Dlr Inc Fd NAV Nov 4	$13.07	—	11.46
New Asia NAV Nov 4	$24.00	—	-
New Europe NAV Nov 4	$11.49	—	-
Preimamo Fund Inc Dlr (z)	$114.87	—	-
Sov High Yld Inv A Oct 19	$18.94	—	14.887
Sov High Yld Inv B Oct 19	$19.50	—	14.757
Venezuela Hi Inc Oct 28	$4.87	—	21.42
World Inc Opps Inc Nov 4	$14.21	—	-
Latin Am Inc & App NAV			
Class A (z)	$19.58	—	10.784
Class B (z)	$19.82	—	10.082

Seahawk International Inc

Seahawk International Inc	$221 8970	—	-

Segespar Securities (Bermuda) Ltd

Green Way Ltd NAV Sep 30	$10861.35	—	-

Seychelles Fund Ltd

NAV Jan 30	$857 7620	—	-

Shiozumi Investment Mngmt (Bermuda) Ltd

Japan Opps NAV Oct 31	$16.819	—	-

Sindra Fund Ltd

NAV Nov 3	$15.79	—	-

Sloane Robinson Investment Mngmt Ltd

S.R. Global Fund Inc.

Europe Nov 2	$160.47	—	-
Asia Nov 2	$105.71	—	-
International Nov 2	$104.92	—	-
S.R. Global Bond Fund Inc			
Global Bond A Acc Nov 2	$100.85	—	-
Global Bond A Dist	$100.92	—	-

Smith Barney Funds

Worldwide Special NV (z)	$308.04	—	-
Worldwide Securities (z)	$61 65	—	-

Soditic Asset Management Inc

Alpha SAM	$124.85	—	-
SAM Brazil	$271.21	+12.88	-
SAM Diversified	$132.88	—	-
SAM Opportunity	$130.29	—	-
SAM Oracle	$111.38	—	-
SAM Strategy	$114.68	—	-
SAM/McGarr Hedge	$120.47	—	-

Carl Spaengler KAG

Long Term Value Trust NAV	$700.09	—	-

Wellington Fd Mngrs (Bermuda) Ltd

Intnl Growth Fd	$16.81	17.85	+0.37

Wells Fargo U.S. IT Fund

Wells Fargo A Shs (z)	$11.93	-0.08	-
Wells Fargo B Shs (z)	$13.75	-0.08	-

Worldwide Limited

NAV Sep 30	$85.82	—	-

Xiphias International Investment Fd Ltd

Xiphias Global Growth Jul 31	$9.70	—	-
Xiphias Intl ECU Acc	Ecu1.3848	—	-
Xiphias Intl ECU Dis	Ecu1.1811	—	-

Yamaichi Capital Management (Guernsey) Ltd

Tidal Inv Fund	$22.23	—	-

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(♥) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(♣) - 1401 to 1700 hours
(♠) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
h - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance
a - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
58 - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision.
‡ - Only available to charitable bodies
φ - Yield column shows annualised rates of NAV increase.
xd - Ex-dividend.

CURRENCIES AND MONEY

MARKETS REPORT

Second tier currencies make all the running

Second tier currencies made the running yesterday on the foreign exchanges, with most of the main currencies range-bound, *writes Philip Gawith.*

Following last week's intervention by the US Federal Reserve, traders said the market was taking a "wait and see" attitude to the dollar ahead of the November 15 meeting of the Federal Open Markets Committee.

It closed slightly weaker in London, from last Friday, at DM1.5172, from DM1.5235, and at Y97.31 from Y97.8.

Trade was generally very quiet, a fact partially substantiated by Bank of Japan figures showing that dollar/yen spot turnover in Tokyo yesterday was the lowest, at $2.172bn, in 15 months.

Currencies in the news included the Swedish krona, which weakened on fears of a vote against joining the European Union; the Portuguese escudo, which broke through the Es102 level against the D-Mark; and the Australian and New Zealand dollars, which both continued their recent appreciation.

The trade weighted sterling index was unchanged at 80.6. In Europe the D-Mark closed slightly weaker against most currencies. Against the French franc it finished at FFr3.427 from FFr3.431.

■ Last week's intervention by the Fed in support of the dollar has made traders wary of selling it. Mr Adrian Cunningham, senior currency economist at UBS in London, commented: "People are just waiting to see what happens next with the Fed. They are not prepared to take a big punt."

Speaking after a meeting in Basle of the G10 central bank governors committee, Mr Hans Tietmeyer, chairman, and also president of the Bundesbank, said intervention had been discussed. He said "things were done appropriately and it was seen positively," but gave no hint of what lay ahead.

Mr Malcolm Barr, analyst at Chemical Bank in London, said a measure of how quiet trade had been was that the $/DM trading range, in Europe, of about 70 basis points was about half the average daily range of 120-130 basis points.

Mr Brian Marber, technical analyst, still maintains that the dollar's long term trend is down. He notes that at its recent low, against the D-Mark, it had only fallen 15.2 per cent, compared with the 24.4-29.9 per cent swings in all five "major moves" since December 1987.

■ The charts also have a potentially gloomy message for sterling. While not calling a reversal, Mr Marber points out that between 1985 and March 1994, there were seven occasions when the pound rose for periods of 20-26 weeks without any significant reaction intervening. From the March 1994 low to last month's peak, 29 weeks elapsed, the longest run since 1985, during which sterling gained nearly 18 cents.

After the seven previous multi-week advances, sterling lost an average of 59 per cent of its gains, on two occasions losing 100 per cent and more. Were it to lose 59 per cent of the gain made since March, it would fall to $1.5335.

The pound gained limited support from the unexpectedly strong UK output figures. September industrial output rose by 1.1 per cent, for a year-on-year rise of 6.6 per cent.

Mr Tony Norfield, UK treasury economist at Abn-Amro, said there was still some nervousness in sterling markets about a near-term rise in UK interest rates. He said that the strong production figures had improved the prospect of interest rates rising this year, though he still favoured early 1995 for the next tightening.

The prospect of higher rates prompted a fall in short sterling, with the December contract closing at 93.56, from 93.60. In the cash markets, three month LIBOR firmed to $6\frac{1}{8}$ per cent, from $6\frac{1}{16}$ per cent.

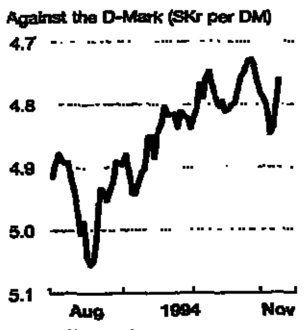
In its daily operations the Bank of England provided £490m assistance at established rates, and £585m of late assistance, after forecasting a £1.2bn shortage. Overnight money traded between 5⅝ per cent and 6½ per cent.

■ The Swedish krona continued to take its lead from EU opinion polls. A weekend poll showing more opposition to, than support for, EU membership, drove the krona as low as SKr4.8675, against the D-Mark, before it recovered to a close of SKr4.843.

Elsewhere the Australian dollar was firm, rising to $0.7539 from $0.7484. Analysts said it was benefiting from the market perception that the Reserve Bank had acted pre-emptively to combat inflation.

Swedish Krona

Against the D-Mark (SKr per DM)



Source: FT Graphite

■ **Pound in New York**

Nov 7	—Latest—	– Prev. close –
£ spot	1.6155	1.6160
1 mth	1.6147	1.6153
3 mth	1.6144	1.6151
1 yr	1.6068	1.6067

■ **OTHER CURRENCIES**

Nov 7	£	$
Hungary	174.048 - 174.306	107.930 - 108.030
Iran	2812.00 - 2815.00	1748.00 - 1750.00
Kuwait	0.4804 - 0.4818	0.2979 - 0.2988
Poland	37476.8 - 37546.1	23240.0 - 23270.0
Russia	5002.20 - 5007.00	3101.00 - 3104.00
U.A.E.	5.9307 - 5.9425	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Nov 7		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2314	-0.0193	226 - 402	17.2515	17.2085	17.2271	0.3	17.2152	0.4	-	-	115.4
Belgium	(BFr)	50.3110	-0.0917	647 - 573	50.4170	50.2645	50.281	0.7	50.211	0.8	50.071	0.5	117.3
Denmark	(DKr)	9.5896	-0.0169	855 - 940	9.6086	9.5775	9.5873	0.3	9.6021	-0.5	9.5816	0.1	117.2
Finland	(FM)	7.5661	+0.0239	566 - 755	7.5990	7.5300	-	-	-	-	-	-	88.2
France	(FFr)	8.3847	-0.022	799 - 894	8.4086	8.3793	8.3825	0.3	8.3748	0.5	8.3067	0.9	110.4
Germany	(DM)	2.4473	-0.0028	460 - 485	2.4521	2.4430	2.4456	0.8	2.4417	0.9	2.4103	1.5	126.6
Greece	(Dr)	376.777	-1.058	591 - 962	377.706	376.576	-	-	-	-	-	-	-
Ireland	(I£)	1.0142	+0.0002	134 - 150	1.0163	1.0111	1.014	0.2	1.0137	0.2	1.0154	-0.1	105.5
Italy	(L)	2510.72	-3.22	921 - 222	2516.95	2509.20	2516.32	-2.7	2527.72	-2.7	2578.22	-2.7	74.4
Luxembourg	(LFr)	50.3110	-0.0917	647 - 573	50.4170	50.2645	50.281	0.7	50.211	0.8	50.071	0.5	117.3
Netherlands	(Fl)	2.7429	-0.0071	417 - 441	2.7488	2.7403	2.7415	0.6	2.7371	0.8	2.7026	1.5	121.1
Norway	(NKr)	10.6805	-0.0105	759 - 851	10.7052	10.6646	10.6805	0.0	10.6821	-0.1	10.6811	0.0	86.4
Portugal	(Es)	249.216	-1.173	066 - 366	250.296	248.452	250.946	-8.3	254.126	-7.9	-	-	-
Spain	(Pta)	203.817	-0.507	720 - 914	204.282	203.702	204.147	-1.9	209.002	-10.2	207.427	-1.8	85.9
Sweden	(SKr)	11.8461	-0.0068	352 - 570	11.9109	11.8100	11.8651	-1.9	11.9076	-2.1	12.0521	-1.7	75.1
Switzerland	(SFr)	2.0486	-0.0018	472 - 500	2.0529	2.0445	2.0455	1.8	2.0381	2.1	1.9958	2.6	122.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.6
Ecu	-	1.2857	-0.001	850 - 863	1.2890	1.2845	1.2858	0.0	1.2859	0.0	1.2802	0.4	-
SDR†	-	0.918606	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6127	+0.0049	121 - 132	1.6176	1.6115	-	-	-	-	-	-	-
Brazil	(R)	1.3501	-0.0072	481 - 521	1.3607	1.3480	-	-	-	-	-	-	-
Canada	(C$)	2.1858	+0.0039	848 - 868	2.1949	2.1846	2.1845	0.7	2.1835	0.4	2.1828	0.1	86.6
Mexico	(New Peso)	5.5271	+0.0135	215 - 327	5.5433	5.5215	-	-	-	-	-	-	-
USA	($)	1.6131	+0.0049	126 - 135	1.6182	1.6120	1.6124	0.5	1.612	0.3	1.6049	0.5	61.4
Pacific/Middle East/Africa													
Australia	(A$)	2.1398	-0.0091	384 - 411	2.1614	2.1371	2.1419	-1.2	2.1447	-0.9	2.1586	-0.9	-
Hong Kong	(HK$)	12.4669	+0.0355	630 - 707	12.5061	12.4620	12.4578	0.9	12.4535	0.4	12.4083	0.5	-
India	(Rs)	50.6982	+0.1942	760 - 204	50.8460	50.6750	-	-	-	-	-	-	-
Japan	(Y)	156.966	-0.312	858 - 074	157.520	156.850	156.506	3.5	155.491	3.8	150.306	4.2	190.3
Malaysia	(M$)	4.1332	+0.0107	312 - 351	4.1458	4.1310	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6007	-0.0011	989 - 024	2.6130	2.5980	2.6054	-2.1	2.6146	-2.1	2.6345	-1.3	-
Philippines	(Peso)	38.9552	-0.6053	637 - 467	39.0500	38.8606	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0502	+0.0177	481 - 522	6.0694	6.0450	-	-	-	-	-	-	-
Singapore	(S$)	2.3658	+0.0002	646 - 670	2.3757	2.3642	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.6574	+0.0011	546 - 602	5.6850	5.6540	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.5329	-0.0203	149 - 508	6.6034	6.5130	-	-	-	-	-	-	-
South Korea	(Won)	1286.17	+4.38	573 - 660	1290.19	1285.70	-	-	-	-	-	-	-
Taiwan	(T$)	42.0220	+0.1397	058 - 381	42.1517	42.0037	-	-	-	-	-	-	-
Thailand	(Bt)	40.1981	+0.0667	828 - 133	40.3340	40.1820	-	-	-	-	-	-	-

†SDR rates for Nov 4. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 7		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	10.6825	-0.0445	800 - 850	10.6895	10.6465	10.6825	0.0	10.6823	0.0	10.6075	0.7	104.5
Belgium	(BFr)	31.1900	-0.152	700 - 100	31.2130	31.1200	31.1925	-0.1	31.15	0.5	31.05	0.4	106.1
Denmark	(DKr)	5.9451	-0.0287	441 - 461	5.9465	5.9240	5.9491	-0.8	5.9576	-0.8	5.9961	-0.9	105.5
Finland	(FM)	4.6906	+0.0006	860 - 951	4.7021	4.6574	4.6914	-0.2	4.6881	0.2	4.6646	0.1	82.8
France	(FFr)	5.1980	-0.0295	965 - 995	5.2028	5.1870	5.1992	-0.3	5.1959	0.1	5.1846	0.3	106.5
Germany	(D)	1.5172	-0.0063	168 - 175	1.5175	1.5120	1.5168	0.3	1.5147	0.6	1.5019	1.0	107.3

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 7		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£
Belgium	(BFr)	100	19.06	16.67	4.864	2.016	4991	5.452	21.23	495.3	405.1	23.55	4.073	1.988
Denmark	(DKr)	52.46	10	8.743	2.552	1.057	2618	2.860	11.14	259.9	212.5	12.36	2.137	1.043
France	(FFr)	60.00	11.44	10	2.918	1.209	2995	3.271	12.74	297.2	243.1	14.13	2.444	1.193
Germany	(DM)	20.56	3.919	3.427	1	0.414	1026	1.121	4.365	101.8	83.29	4.843	0.837	0.409
Ireland	(I£)	49.62	9.458	8.269	2.413	1	2476	2.705	10.53	245.8	201.0	11.69	2.021	0.986
Italy	(L)	2.004	0.382	0.334	0.097	0.040	100.	0.109	0.425	9.924	8.118	0.472	0.082	0.040

UK INTEREST RATES

LONDON MONEY RATES

BASE LENDING RATES

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

EMS EUROPEAN CURRENCY UNIT RATES

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 7 / Sch)

BELGIUM/LUXEMBOURG (Nov 7 / Frs.)

DENMARK (Nov 7 / Kr)

FINLAND (Nov 7 / Mks)

FRANCE (Nov 7 / Frs.)

GERMANY (Nov 7 / Dm.)

ITALY (Nov 7 / Lire)

NETHERLANDS (Nov 7 / Fls.)

NORWAY (Nov 7 / Kroner)

SPAIN (Nov 7 / Pts.)

SWEDEN (Nov 7 / Kronor)

SWITZERLAND (Nov 7 / Frs.)

PACIFIC

JAPAN (Nov 7 / Yen)

AUSTRALIA (Nov 7 / Aus$)

HONG KONG (Nov 7 / H.K.$)

MALAYSIA (Nov 7 / MYR)

SINGAPORE (Nov 7 / S$)

NORTH AMERICA

CANADA

TORONTO (Nov 7 / Can $)

4 pm close

MONTREAL (Nov 7 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Nov 7 / Rand)

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). ‖ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

TOKYO – MOST ACTIVE STOCKS: Monday, November 7, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsubish Elec	7.5m	701	–6	Nishimatsu Const	2.9m	998	–22
Nakabayashi	6.0m	978	+8	Nissan Motor	2.7m	794	–30
Nippon Steel	4.8m	397	–1	Hitachi	2.4m	974	–25
NKK	3.5m	289	–8	Sumitomo Chem	2.4m	577	–2
Sumitomo Mtl	3.4m	352	–6	Canon Inc	2.1m	1740	–20

INDICES

		Nov 7	Nov 4	Nov 3	1994 High		1994 Low	
Spain								
Madrid SE (30/12/85)		294.08	296.82	295.50	358.31	31/1	288.85	26/10
Sweden								
AffarsvardIndGen (1/2/37)		1427.80	1443.80	1447.50	1603.80	31/1	1334.70	8/7
Switzerland								
Swiss Bk Ind (31/12/58)		1190.90	1191.19	1185.91	1423.34	31/1	1138.72	27/10
SBC General (1/4/87)		907.71	905.17	902.40	1093.29	31/1	876.57	27/10
Taiwan								
WeightedPr.(30/6/66)**		6320.02	6369.11	6306.29	7191.13	30/9	5194.63	19/3
Thailand								
Bangkok SET (30/4/75)		1504.15	1522.94	1528.51	1753.73	4/1	1198.59	4/4
Turkey								
Istanbul Comp.(Jan 1986)		25745.87	25450.3	25221.3	28883.80	13/1	12980.70	24/3
WORLD								
MS Capital Int (1/1/70)$		629.4*	630.8	634.2	649.90	2/11	591.50	4/4
CROSS-BORDER								
Eurotrack 100(26/10/90)		1322.86	1333.72	1325.53	1540.19	31/1	1288.48	5/10
Euro Top-100 (26/6/90)		1171.34	1182.83	1180.17	1311.81	2/2	1136.48	5/10
JCapelDrgns (31/12/88)		(u)	338.38	336.70	395.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)		181.03	179.32	180.79	191.79	26/9	141.55	21/4
Japan								
Nikkei 225 (16/5/49)		19819.22	19811.58	(c)	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)		284.41	287.25	(c)	311.71	13/6	268.22	4/1
Topix (4/1/68)		1555.41	1569.80	(c)	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)		2193.44	2219.08	(c)	2542.65	8/7	1873.33	4/1
Malaysia								
KLSE Comp.(4/4/86)		1070.14	1074.41	1068.46	1314.46	5/1	928.33	4/4

** Sat Nov 5 : Taiwan Weighted Price 6372.21; Korea Comp Ex 1125.01. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 7 - 2043.30 -26.09

CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	1917.0	1913.0	-21.0	1921.9	1905.0	14,870	22,737
Dec	1926.5	1921.5	-19.5	1926.0	1914.0	99	26,741
Mar	1951.5	1947.5	-15.5	1953.0	1940.5	204	6,615

Open interest figures for previous day.

US INDICES

Dow Jones

NASDAQ Comp (18/3) (24/6) (18/3/94) (31/10/72)

RATIOS

	Nov 4	Oct 28	Oct 21	Year ago
Dow Jones Ind. Div. Yield	2.78	2.70	2.72	2.80
	Nov 2	Oct 26	Oct 19	Year ago
S & P Ind. Div. yield	2.39	2.39	2.36	2.41
S & P Ind. P/E ratio	20.95	20.82	21.11	28.61

STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	462.40	462.60	+0.20	463.45	461.85	88,038	211,112
Mar	466.00	465.60	+0.15	466.00	465.60	3,963	17,635
Jun	-	469.60	-	469.90	-	269	3,614

Open interest figures are for previous day.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Telefonos	4,388,500	56¾	+1⅞
Gen Motors	4,249,100	39⅝	+⅛
Wal-Mart	3,112,000	23⅝	+⅛
Compaq	2,742,400	38½	-1½
Tenneco	2,666,800	43⅝	-¾
IBM	2,552,700	71½	-1⅛
Limited	2,374,300	20⅝	-⅛
Ford Motor	2,078,900	29	-⅛
Walt Disney	1,982,700	39⅛	-⅞
Intl Game	1,972,200	19⅝	+⅝

TRADING ACTIVITY

● Volume (million)

	Nov 4	Nov 3	Nov 2
New York SE	280.426	284.489	331.348
Amex	18.703	13.471	19.060
NASDAQ	255.598	278.691	330.870
NYSE			
Issues Traded	2,885	2,898	2,908
Rises	671	1,084	945
Falls	1,490	1,044	1,259
Unchanged	724	770	704
New Highs	20	31	44
New Lows	160	117	170

† Correction. * Calculated at 15.00 GMT ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close November 7

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
17¾	12⅛	AAR x	0.48	3.8	21	323	12⅝	12¼	12⅝	+⅜
18	12⅝	A L Labs A	0.18	1.1	38	177	17⅜	16½	16½	-⅜
78⅜	57⅝	AMP x	1.88	2.3	26	2500	75⅜	74½	74⅝	-⅞
72¾	48⅛	AMR			89	5817	52⅝	51⅛	51¼	-1¼
5	3⅜	ARX			13	175	3⅞	3¾	3⅞	
58⅛	38⅝	ASA	2.00	4.2	31	233	47⅞	47⅝	47⅝	-¼
32	25⅜	AbbtL	0.76	2.5	18	6419	31	30⅝	31	
15¼	11⅜	Abitibi Pr	0.50	3.8	11	14	13⅛	13⅛	13⅛	+⅛
23⅝	17¾	ABM Ind	0.52	2.6		223	20⅜	20¼	20⅜	
18	11⅛	Acptncato			29	284	16⅞	16⅛	16⅛	-¾
31	22	ACE Ltd	0.44	2.0	27	17	22½	22¼	22⅜	-⅛
12½	9¼	ACM Gvt In x	1.09	11.7		677	9⅝	d9¼	9⅜	+1/32
10⅛	7	ACM GvOpp x	0.80	11.6		23	7	d6⅞	6⅞	+.55
10⅝	7	ACM Gvt Sp x	0.96	13.7		305	7⅛	d7	7	[illegible]
12	8¼	ACM Gvt Sa x	1.09	13.3		597	8⅜	d8¼	8¼	[illegible]
11¾	7⅜	ACM Man x	1.06	13.7		231	8	7⅞	7⅞	+.84
9⅛	8	ACM Mmngd x	0.72	8.9		232	8⅛	8⅛	8⅛	[illegible]
15½	8¾	AcmeClv x	0.44	3.4	15	5	12⅞	12⅞	12⅞	
13⅝	8½	Acme Elect			11	113	11¼	10⅞	11⅜	-⅛
28¾	23	Acordia	0.60	2.2	14	3	27⅞	27¾	27⅞	
13¾	5¾	Actava	0.36	3.6	2	1454	10⅛	9⅞	10	-⅛
18⅜	11¼	Acuson			137	618	17⅞	17½	17⅞	+⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

4 pm close November 7

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close November 7

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ABS Inds	0.20	19	53	14½	14	14⅜	+¼
ACC Corp	0.12	154	382	17	16¾	17	+¼
Acclaim E		22	7498	17⅛	16½	16¾	
Acme Mits		15	255	19¼	18¾	18¼	-17/32
Acxiom Cp		40	40	28¾	28	28	-⅜
Adaptech		22	5885	23½	22⅝	23⅛	+3/16
ADC Tele		36	355	43¾	42¾	43¼	+⅛
Addington		6	1008	11	10¾	10¾	+¼
Adia Serv	0.16	21	10	35¾	35¾	35¾	
Adobe Sys	0.20	27	5798	34¾	33¾	34	-½
Advance C		7	87	11	10⅝	10⅞	
Adv Logic		9	38	4⅝	4⅜	4⅜	-⅛
Adv Polym		6	450	4¾	4 13/32	4 9/16	+5/32
AdvTchLab		22	889	16½	16	16¼	+7/16
Advanta	0.27	13	3363	26¾	d25½	25¾	-1
Aflymax		13	29	17	16¼	16½	
AgnicoEa	0.10	134	1524	12⅝	11⅞	12⅛	-⅜
AirExpr	0.24	19	552	u28⅜	28	28⅛	-¼
Alizo ADR	1.51	21	193	59⅝	59¼	59⅝	
AlzaDE x	0.88	16	508	23¾	22¼	23½	+⅞
Allegh &W		30	23	10¾	10⅝	10⅝	-⅛
Allen Org	0.52	14	4	36¼	36¼	36¼	
Alkan Ph		3	1454	7⅛	d6 11/16	6 13/16	-5/16
AlldCapII	1.00	13	29	14¾	14⅜	14¾	+5/16
Altd Cap	0.80	12	21	13¾	13¼	13¾	
Aloette C	0.32	8	59	2 13/16	d2½	2¾	-⅛
Alta Gold	0.06	73	284	1 13/32	1 13/32	1 13/32	

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow		13	234	15	14¾	14¾	-¼
Rallys		3	214	4¼	4	4⅛	+⅛
Rasterops		1	2075	3¼	3	3¼	+¼
Raymond		24	114	18¾	18	18⅜	+¼
Recoton		18	156	20¼	19¾	20	+½
ReLife A		22	9	23¼	23¼	23¼	-¼
Repligen		1	366	2⅞	2¾	2⅞	
Rep Waste		7	195	u4	3¾	3⅞	+⅛
Resrchind		21	859	u13	12⅝	12¾	-⅛
Reuters	0.37	16	1892	46¾	46⅜	46½	-⅜
Rexon Inc		9	558	5⅝	5⅛	5¼	+⅛
River Fst	0.60	10	7	34	33¼	33½	-½
RoadwS	1.40	17	3467	53¾	d53	53¾	+¼
RbNgnt	0.12	16	65	8⅜	8	8	-⅛
RochStrBk	0.40	4	2074	17⅞	17⅜	17⅜	-¼
Roosevelt	0.44	2	3461	15⅞	15	15⅛	-⅜
Ross Str	0.20	11	953	14¼	13¾	14	-⅛
RotechMed		31	151	26	25½	25½	-½
Rouse	0.68	55	243	18 1/16	17¾	17¾	
RPM Inc.	0.58	22	476	19½	19⅛	19½	+¼
RS Fin x	0.60	14	74	23⅜	23	23⅜	+⅜
Ryan Fmly		12	478	6⅞	6¾	6⅞	

- S -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Safeco	1.96	7	2074	50⅛	49⅝	50	+¼
Sanderson	0.30	15	57	u20¼	19¾	20	+¼
SchlmbgrA	0.30	21	482	28¾	28½	28¾	+¼
Sci Med L		12	3716	47¾	46¾	47¼	-¼
SCI Systm		14	752	19	18¼	18¼	-½
Scios		6	978	7	6¼	6⅝	-⅛
Scitex Cp	0.52	10	4134	21½	20⅞	21⅛	-⅛
Score Brd		7	520	4⅞	4⅝	4⅞	+⅛
Seafield	1.20	43	60	36	34¾	36	+1
S'gate		12	16229	26⅞	26¼	26¾	
SEI Cp	0.16	26	911	20⅞	20¼	20⅜	+⅛

AMEX COMPOSITE PRICES

4 pm close November 7

AMERICA

Chrysler down on Kerkorian speculation

Wall Street

US share prices were little changed in subdued trading yesterday morning as many market participants stayed on the sidelines awaiting fresh economic news due later this week, *writes Patrick Harverson in New York.*

By 1 pm, the Dow Jones Industrial Average was up 2.69 at 3,810.21, having spent most of the morning session close to opening levels. The more broadly-based Standard & Poor's 500 was also little changed, up 0.20 at 462.48, while the American Stock Exchange composite was 1.82 weaker at 451.09 and the Nasdaq composite down 3.61 at 762.47. Trading volume on the NYSE was 154m shares.

From the start, stocks moved unconvincingly within a narrow range on either side of opening values as the market struggled to find a direction. Early declines in bond prices did not help sentiment, but the losses were short-lived, and it was clear by mid-morning that stocks were not going to get much of a lead from bonds.

The lack of any upward momentum, meanwhile, was due to the lacklustre nature of overall investor sentiment, which remained weak following Friday's September employment report. Trading throughout the session was quiet, with many investors clearly wary of committing funds to the market ahead of today's crucial mid-term elections, and Thursday's key inflation data.

Among individual stocks, Chrysler fell $1⅝ to $46 amid speculation that the financier, Mr Kirk Kerkorian, might sell some of his 9.2 per cent holding in the car manufacturer.

Technology issues, which enjoyed some gains last week, were again in demand after three groups, Apple Computer, IBM and Motorola, announced that they had agreed on a new hardware reference platform for the PowerPC microprocessor which should deliver a wider range of operating system and application choices. The news helped IBM to gain $¾ at $71⅞, Motorola to add $⅞ at $58⅝ and Apple, which is traded on the Nasdaq market, to firm $⅞ to $40⅞.

Snapple Beverage fell $2⅛ to $13⅜ and Quaker Oats slipped $⅞ to $68 after documents filed relating to the takeover of Snapple by Quaker showed that Snapple recently cut its internal earnings projections for the remainder of the year.

Canada

Toronto stocks continued to founder at midday, with the market sapped of energy ahead of the US mid-term elections.

The TSE 300 composite index eased 8.46 to 4,190.17 in modest turnover of 18.43m shares.

Venezuela

Caracas lost 4 per cent as local investors sold Electricidad de Caracas ahead of its forthcoming subscription of new shares. There was also continued negative reaction to the government's policy on repatriation of profits, announced at the end of last week. The Merinvest composite index fell 6.06 to 132.78, its lowest level since August 11.

Electricidad rallied just before the close to finish down 9 bolivars at 265 bolivars.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1994	Start of 1994	Start of 1994
Austria	+2.50	+0.91	-5.82	-12.51	-8.52	-0.55
Belgium	+0.74	+3.00	-4.70	-10.03	-4.54	+3.77
Denmark	-0.67	+0.73	-9.33	-11.94	-7.85	+0.17
Finland	-1.06	+8.69	+23.82	+27.77	+45.14	+57.77
France	+1.42	+3.67	-8.05	-14.01	-10.64	-2.86
Germany	+1.32	+5.01	-2.88	-10.19	-5.83	+2.37
Ireland	+0.31	+2.22	+3.09	-0.44	+3.09	+12.06
Italy	-0.44	-0.47	+11.38	+3.33	+4.10	+13.15
Netherlands	+0.23	+4.19	-0.43	-3.43	+0.90	+9.67
Norway	-1.14	+1.61	-0.93	-1.74	+2.26	+11.16
Spain	+0.51	+2.32	-6.62	-10.05	-6.92	+1.18
Sweden	-1.97	+5.13	+2.34	+3.44	+7.62	+16.98
Switzerland	+2.37	+1.76	-3.98	-11.96	-5.66	+2.55
UK	+0.49	+3.21	-1.42	-9.20	-9.21	-1.31
EUROPE	+0.71	+3.27	-2.19	-8.68	-6.08	+2.09
Australia	-1.39	+1.95	-4.01	-7.08	-5.75	+2.45
Hong Kong	+1.56	+1.44	+4.57	-20.97	-27.32	-21.00
Japan	+0.08	-0.67	-2.56	+8.37	+13.77	+23.66
Malaysia	-3.38	-4.94	+8.07	-15.26	-18.08	-10.95
New Zealand	+1.08	+7.84	+1.67	+2.82	+4.51	+13.61
Singapore	-0.23	+2.83	+15.69	-1.45	-0.83	+7.80
Canada	-2.51	-2.31	+3.22	-0.03	-10.25	-2.44
USA	-2.24	+1.72	+1.55	-0.46	-8.43	-0.46
Mexico	-0.44	-2.84	+26.56	-1.99	-18.32	-11.21
South Africa	+2.38	+5.18	+50.23	+20.30	+16.51	+26.65
WORLD INDEX	-0.64	+1.28	+0.03	-1.04	-2.41	+6.09

† Based on November 4, 1994.

Nordic bourses had the worst time in Europe's equity markets last week. This follows periods of outperformance in October, since June 30 and over the year to date, according to the FT-Actuaries World Indices. Unibank Securities notes that EU opinion polls in Sweden and in Norway have shown continued rejection of membership, while the Finnish parliament has delayed ratification of its own "yes" referendum vote until after the Swedish poll next Sunday.

Meanwhile, the painful wait for the next US interest rates increase meant a sharp rise in yield spreads against German bunds, in Sweden and Norway in particular. Sore spots in Finland included an attempt to block the EU "yes" vote by filibuster. In Denmark, there was bad corporate news from Burmeister & Wain which lost it two-thirds of its remaining equity capitalisation; a 10.7 per cent drop in EAC in spite of its sale of none-core assets for considerable profits in the Far East; and weakness in the AP Moeller shipping companies.

EUROPE

Big swings again in Italian bank shares

Low volume featured in most bourses as the dollar moved into an uneasy calm ahead of today's congressional elections in the US, and talk mounted of a rise in US interest rates next week, *writes Our Markets Staff.*

MILAN saw renewed tensions among the government coalition partners as the Comit index gave up 5.49 to 623.81. The banking sector, however, continued to see frenetic activity. Ambroveneto finished L674 or 12.9 per cent down at L4,558, off a day's low of L4,200 after the shareholder syndicate appeared to have erected defences against the BCI takeover threat. BCI eased L31 to L3,502.

Credito Romagnolo, object of a similar bid by Credito Italiano, appeared to fall in sympathy, giving up L534 or 3.1 per cent to L16,426. Credito Italiano was down L19 at L1,552.

Preferred shares of Banca Nazionale dell'Agricoltura surged 19.7 per cent at the opening, before edging back to finish L213 or 18.1 per cent ahead at L1,483. The ordinary shares eased L13 to L2,887. All BNA shares were suspended on Friday after newspaper reports, subsequently denied by the bank, that it was considering transforming preferred shares into ordinary shares. Yesterday, 864,000 preferred were traded compared with just 61,000 on Thursday.

FRANKFURT was preoccupied with the reunification tax surcharge, tax needs in general and their effect on consumption prospects; this weighed on retailers, and to a degree on carmakers as the Dax index fell 24.04 to 2,043.52 on the session, with little change after hours.

Turnover fell from DM5.6bn to only DM3.6bn. Among retailers, Karstadt and Kaufhof both fell by more than 3 per cent on the session, dropping DM18.50 to DM586.50, and DM17.50 to DM482; the three big carmakers, BMW, Daimler and Volkswagen, dropped by DM14.50 to DM767, DM17.80 to DM753.40, and DM10.80 to DM436 respectively.

At James Capel, Mr Frank Jonuschat said that Karstadt had come in for selling following relative strength against the sector, and in a German context over the last four and twelve-week periods.

However, the integration of its Hertie acquisition was seen as a short term brake on progress; worries over solidarity tax have been joined by the view that wage negotiations this year are unlikely to produce any real gains in consumption; and last summer, added Mr Jonuschat, was one of the worst for retailers on record.

PARIS reflected the weakness on the bond markets, but turnover was thin at just FFr2.5bn. The CAC-40 index ended off 25.58 or 1.3 per cent at 1,906.07, with losses accelerating as Wall Street opened lower.

Crédit National, the corporate banking group, outperformed the market, rising FFr34.60 or 9 per cent to FFr409.20 on speculation that it could be vulnerable to a takeover bid. Earlier in the year the government said that it would surrender its right to appoint the chairman, and its power of veto over board decisions; an extraordinary shareholders meeting tomorrow should decide on changes to the compnay structure.

Shares in the bank have fallen sharply this year, having opened on January 1 at FFr700.

ZURICH saw some late buying after futures firmed, and the SMI index overcame early losses to finish 16.9 ahead at 2,557.9 in thin volume.

Activity remained focused mainly on Holderbank and financial issues. Holderbank bearers added SFr16 to SFr1,036 in continued response to Friday's strong 1994 profits forecast. Among other cyclicals, Elektrowatt added SFr8 to SFr353 and MotorColumbus gained SFr30 to SFr1,910.

UBS bearers picked up SFr19 to SFr1,159 after recent falls, with the bank said to be a buyer. The registered closed SFr5 higher at SFr264.

AMSTERDAM's AEX index closed at a session low of 408.60, down 2.20. Ahold, the retailer, went against the trend, rising Fl 1.20 to Fl 50.40 on reports that its subsidiary, Schuitema, had seen a 20 per cent rise in nine-month profits.

However, the big multinationals, Royal Dutch and Unilever, fell respectively by Fl 2.90 and Fl 1.00 to Fl 189.40 and Fl 198.60. Some US selling was seen ahead of both companies third quarter results due out later this week.

Profit-taking lay behind falls in Philips and KLM, which both came out with good figures last week but fell yesterday by Fl 1.70 and 70 cents, to Fl 54.10 and Fl 47.20.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

Nov 7					THE EUROPEAN SERIES			
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1319.95	1320.19	1319.68	1320.00	1320.10	1321.16	1321.87	1322.66
FT-SE Eurotrack 200	1385.05	1385.15	1384.73	1385.00	1385.07	1385.74	1385.02	1386.99

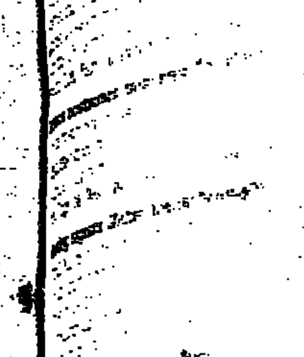
	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31
FT-SE Eurotrack 100	1333.72	1325.53	1316.01	1331.23	1332.14
FT-SE Eurotrack 200	1399.56	1393.66	1382.67	1392.30	1403.54

Base 1000 (26/10/90). Highday: 100 - 1323.87; 200 - 1387.78 Lowday: 100 - 1318.40 200 - 1382.57 † Partial

Nordic markets unnerved

Opinion polls showing growing opposition to Swedish membership of the European Union, ahead of Sunday's referendum, made for further uncertainty in Nordic markets after last week's losses.

Stockholm was broadly lower as the latest poll showed opposition to EU membership leading support by 42 per cent to 40 per cent. In addition, said Mr Peter Tron at Unibank Securities, the outlook for higher US and UK interest rates, and the fact that the Bundesbank was unlikely to cut German rates on Thursday, was a further deterrent. Mr Tron said the markets were still discounting a "yes" vote and added that a "no" vote



could bring a 5 to 10 per cent fall in share prices.

The Affärsvärlden general index declined 16.7 or 1.3 per cent to 1,427.2, but Ericsson "B" showed some resistance to the downward trend, easing only SKr1 to SKr431, tracking a firm performance by its ADRs in New York on Friday.

Oslo, facing its own referendum on November 28, was transfixed by developments in Sweden, and worries that the mood could spill over. The All-share index fell 8.5 to 590.7.

Helsinki's Hex index shed 33.28 to 1,911.63 as EU opponents succeeded in delaying the final parliamentary vote on membership until next week, after Sweden's referendum. Copenhagen's Top-20 KFX index dipped 0.92 to 92.27, dragged lower by the uncertain mood in its neighbouring markets.

ASIA PACIFIC

Seoul at record high as Nikkei loses ground

Tokyo

Stock sales by corporate investors and arbitrageurs depressed share prices, and the Nikkei 225 average lost ground in low volume, *writes Emiko Terazono in Tokyo.*

The index finished 192.34 off at 19,619.22 after fluctuating between 19,755.15 and 19,593.92. Equities declined initially on arbitrage linked selling, triggered by a fall in futures prices. Financial and corporate investors followed suit.

Traders said worries over US financial markets and the currency market ahead of the US elections depressed investor confidence. Volume was 183.9m shares, against 202m.

The Topix index of all first section stocks slipped 14.39 to 1,555.41 and the Nikkei 300 lost 2.84 at 284.41. Declines outnumbered rises by 797 to 183, with 194 issues unchanged. But in London the ISE/Nikkei 50 index put on 1.45 at 1,273.39.

With announcements of interim corporate earnings reaching a peak over the next few weeks, analysts expect to see an increase in activity prompted by profit revisions for the whole business year. However, while investors have reacted to negative earnings news, better than expected first-half results have failed to move stock prices.

Nikko Securities reported that for some companies, upward revisions in earnings had been discounted in stock prices, and even for companies reporting unexpectedly firm earnings, the impact on the share price was likely to be shortlived. Investors should select companies according to their capital investment and research and development plans, the broker said.

Overseas investors and domestic institutions sold steels, which had been bought recently on hopes of strengthening global steel demand. Nippon Steel eased Y1 to Y397 and NKK shed Y8 to Y289.

Heavy electrical shares lost ground on profit-taking: Mitsubishi Electric, the day's most active issue, dipped Y6 to Y701 and Hitachi fell Y25 to Y974.

Office equipment maker Nakabayashi rose Y8 to Y978 on the pachinko, or Japanese pinball, theme. Sailor Pen, a fountain pen maker listed on the second section, jumped Y57 to Y936.

Nissan Motor dropped Y30 to Y794 after announcing last Friday that its interim recurring losses totalled Y57.9bn. Other car companies were also weak, with Suzuki Motor down Y30 to Y1,180.

Nippon Telegraph and Telephone fell Y18,000 to Y897,000 on selling by overseas and institutional investors. Japan Tobacco declined Y40,000 to Y1.05m and Japan Telecom Y140,000 to Y3.42m.

In Osaka, the OSE average softened 152.31 to 21,810.00 in volume of 24.6m shares.

Roundup

The outlook for US interest rates exerted a strong influence in parts of the Pacific Rim region.

SEOUL, however, finished at a record high after its fourth consecutive day of gains, although profit-taking cut back broadly based advances seen in early trade.

The composite index, which peaked at 1,144.55, ended the session 7.98 up at 1,132.99.

The heavily capitalised electricity monopoly Kepco went limit up for its second straight session on a technical rebound, combined with news that the group has had talks with the government on raising electricity prices by 8 per cent next year. It appreciated Won1,300 to Won32,200.

HONG KONG was lower, with investors worried about an expected US interest rate rise next week. The Hang Seng index closed 96.09 or 1.0 per cent down at 9,434.31, off a late afternoon low of 9,414.34.

SINGAPORE declined under Wall Street's influence and there was also talk of further margin calls being triggered after the local market failed to sustain a technical rally seen late last week.

The Straits Times Industrial index fell 20.84 to 2,331.66.

SYDNEY was lower in light volume as the market followed Wall Street. The All Ordinaries index ended 20.5 or 1.0 per cent down at 1,979.2.

TAIPEI retreated in this year's smallest turnover on political uncertainty ahead of the December 3 local government elections.

Brokers said confidence was so weak that even news of a 61.2 per cent surge in the October trade surplus did not help sentiment.

The weighted index ended 52.19 lower at 6,320.02 in turnover that shrank to T$25.85bn from Saturday's T$35.59bn.

Financials led the fall, with First Commercial Bank dipping T$3 to T$165 and Hwa Nan Bank T$2 to T$194.

KUALA LUMPUR finished softer but off the day's lows in thin dealings dominated by continued forced-selling by investors and liquidation by institutions. The composite index lost 4.27 at 1,070.14 and volume, estimated at 128m shares, was the lowest of the year.

MANILA saw profit-taking and a big drop in blue chip issues led by Philippine National Bank, which pulled the market lower after the recent rally. The composite index closed 48.64 down at 3,047.94 as PNB lost 25 pesos or 6.9 per cent at 340 pesos.

Petron fell 3.8 per cent to 25.50 pesos and Benpres Holding dropped 4 per cent to 12.25 pesos, but Pryce Properties bucked the trend, jumping 9.2 per cent to 1.90 pesos.

WELLINGTON was again led lower by a weak Telecom as foreign demand, which had supported the stock, dried up. The NZSE-40 Capital index slipped 5.57 to 2,107.66 as Telecom fell 9 cents to NZ$5.38 after Friday's 19-cent drop.

BOMBAY picked up from early lows after India's biggest private sector group, Reliance Industries, announced that it was planning to merge with two of its subsidiaries, Reliance Polyethylene and Reliance Polypropylene.

The BSE 30-share index finished 4.27 higher at 4,308.70, after touching a low of 4,281.02. Reliance moved ahead Rs3.75 to Rs398.75.

Johannesburg mainly lower

Shares closed generally lower after a slow day's trade dampened by weaker world markets and a soft gold price.

The overall index fell 22 to 5,840, industrials 18 to 6,764 and golds 22 to 2,227. Traders remarked that industrials had undergone a correction after solid gains late last week.

Both De Beers and Anglos ended R1.25 down at R98.25 and R242 respectively, while Gencor shed 25 cents to R15.

Among golds, Vaal Reefs retreated R3 to R411, Kloof 75 cents to R70.25 and Dries 50 cents to R65.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY NOVEMBER 4 1994								THURSDAY NOVEMBER 3 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (69)	170.96	0.4	157.60	105.69	135.41	151.94	-0.3	3.67	170.23	156.02	105.03	134.04	152.43	189.15	149.36	160.43
Austria (16)	183.96	-0.3	169.58	113.72	145.70	145.71	0.3	1.10	184.43	169.04	113.79	145.22	145.22	198.89	167.46	175.84
Belgium (35)	168.76	-0.3	155.59	104.34	133.68	130.46	0.5	4.23	169.29	155.16	104.45	133.31	129.86	177.04	150.60	152.51
Brazil (28)	175.16	2.6	161.47	108.28	138.73	272.12	2.6	0.76	170.66	156.41	105.29	134.38	265.28	-	-	-
Canada (103)	132.47	-0.7	122.12	81.89	104.92	130.16	-0.9	2.62	133.39	122.25	82.30	105.03	131.27	145.31	120.54	133.44
Denmark (33)	247.61	-0.9	228.27	153.08	196.12	201.18	-0.3	1.48	249.91	229.05	154.19	196.78	201.70	275.79	230.27	241.06
Finland (24)	194.37	-1.3	179.18	120.16	153.95	191.31	-0.3	0.74	197.00	180.56	121.54	155.12	191.98	201.41	116.85	127.71
France (101)	170.92	0.4	157.57	105.66	135.38	140.15	1.0	3.09	170.26	156.05	105.04	134.06	138.74	185.37	159.34	164.42
Germany (58)	143.56	0.1	132.35	88.75	113.71	113.71	0.7	1.82	143.36	131.40	88.45	112.88	112.88	150.40	128.37	132.78
Hong Kong (56)	386.57	0.2	356.37	238.98	306.19	383.66	0.2	3.13	385.77	353.57	238.01	303.77	382.61	506.56	341.29	369.84
Ireland (14)	207.54	-0.3	191.33	128.31	164.39	184.38	0.6	3.43	208.25	190.87	128.49	163.99	183.34	216.60	172.05	177.89
Italy (59)	77.61	-0.3	71.55	47.98	61.47	90.61	0.2	1.73	77.85	71.35	48.03	61.30	90.38	97.78	57.88	66.26
Japan (468)	160.92	-0.1	148.35	99.48	127.46	99.48	0.1	0.77	161.09	147.64	99.39	126.85	99.39	170.10	124.54	149.13
Malaysia (97)	526.76	1.0	485.61	325.65	417.23	520.07	1.1	1.61	521.60	478.07	321.82	410.73	514.21	621.63	430.71	487.72
Mexico (18)	2120.03	1.8	1954.39	1310.61	1679.16	7947.04	1.6	1.29	2082.55	1908.72	1284.88	1639.84	7823.61	2647.08	1696.28	1824.68
Netherland (19)	218.37	-0.3	201.31	135.00	172.96	170.44	0.3	3.39	219.13	200.85	135.20	172.56	169.90	223.30	187.01	197.07
New Zealand (14)	77.15	-0.1	71.12	47.69	61.10	66.28	-0.4	3.67	77.20	70.75	47.63	60.79	66.57	77.59	59.22	68.15
Norway (23)	199.69	-0.3	184.08	123.45	158.16	180.19	0.3	1.84	200.29	183.57	123.57	157.71	179.63	211.74	165.52	181.89
Singapore (44)	396.20	0.4	365.25	244.93	313.81	268.57	0.6	1.57	394.58	361.65	243.45	310.71	267.06	401.38	294.68	316.67
South Africa (59)	338.34	1.2	311.90	209.16	267.98	301.35	0.7	2.12	334.42	306.50	206.33	263.33	299.32	342.00	202.72	213.43
Spain (38)	141.00	-0.2	129.98	87.17	111.68	135.72	0.6	4.30	141.25	129.46	87.15	111.22	135.07	155.79	128.88	141.37
Sweden (36)	229.71	-0.8	211.77	142.01	181.95	250.64	-0.4	1.60	231.54	212.21	142.85	182.32	251.67	242.68	175.83	202.42
Switzerland (47)	164.23	-0.3	151.40	101.53	130.08	129.81	0.3	1.87	164.72	150.97	101.63	129.70	129.43	176.56	143.64	145.06
Thailand (46)	180.17	-0.2	166.09	111.38	142.70	174.50	-0.1	1.87	180.58	165.51	111.42	142.20	174.73	-	-	-
United Kingdom (204)	202.37	-0.7	186.56	125.11	160.29	186.56	-0.1	4.09	203.83	186.82	125.76	160.51	186.82	214.96	181.11	188.86
USA (515)	189.03	-1.1	174.26	116.86	149.72	189.03	-1.1	2.89	191.14	175.19	117.93	150.51	191.14	195.04	178.95	186.14
Americas (664)	176.92	-1.0	163.09	109.37	140.13	147.01	-1.0	2.82	178.65	163.74	110.22	140.68	148.48	-	-	-
Europe (707)	173.12	-0.3	159.59	107.02	137.12	150.74	0.3	3.10	173.71	159.21	107.18	136.79	150.35	178.56	154.79	159.59
Nordic (116)	223.77	-0.9	206.28	138.33	177.23	207.48	-0.3	1.43	225.77	206.92	139.29	177.77	208.15	233.91	173.19	192.69
Pacific Basin (793)	170.25	0.0	156.95	105.25	134.85	110.20	0.1	1.10	170.28	156.07	105.06	134.08	110.07	176.86	134.79	157.67
Euro-Pacific (1500)	171.34	-0.2	157.95	105.92	135.71	126.40	0.2	1.95	171.61	157.28	105.88	135.13	126.17	175.14	143.88	158.36
North America (618)	185.52	-1.1	171.03	114.69	146.94	184.98	-1.1	2.88	187.56	171.90	115.72	147.69	187.03	192.73	175.67	182.87
Europe Ex. UK (503)	153.83	-0.1	141.81	95.10	121.84	129.78	0.6	2.50	154.01	141.16	95.02	121.27	129.14	158.12	135.94	140.72
Pacific Ex. Japan (325)	260.92	0.4	240.54	161.31	206.67	231.12	0.3	2.76	259.85	238.16	160.32	204.62	230.52	296.21	232.54	240.14
World Ex. US (1708)	173.13	-0.1	159.61	107.03	137.13	130.11	0.2	1.95	173.30	158.83	106.92	136.46	129.85	176.65	145.58	159.17
World Ex. UK (2019)	174.97	-0.4	161.30	108.17	138.58	144.47	-0.3	2.08	175.70	161.04	108.40	138.35	144.86	178.59	155.96	165.07
World Ex. Japan (1755)	188.18	-0.6	173.47	116.33	149.04	176.99	-0.4	2.90	189.29	173.49	116.79	149.05	177.69	195.20	176.34	178.57
The World Index (2223)	177.38	-0.5	163.52	109.66	140.49	148.29	-0.2	2.28	178.16	163.31	109.93	140.30	148.66	180.80	158.85	167.16

Latest prices were unavailable for this edition.